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NOMINATIONS OF: RICHARD SCOTT CARNELL,
SUSAN GAFFNEY, EDWARD DeSEVE, ARTHUR
LEVITT, JR., ALAN S. BLINDER AND JOSEPH
E. STIGLITZ

Y 4. B 22/3: S. HRG. 103-239

NGS

Nominations of: Richard Scott Carne... IE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

NOMINATIONS OF:

RICHARD SCOTT CARNELL TO BE ASSISTANT SECRETARY FOR FINANCIAL
INSTITUTIONS, DEPARTMENT OF THE TREASURY

SUSAN GAFFNEY TO BE INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

EDWARD DESEVE TO BE CHIEF FINANCIAL OFFICER, DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

ARTHUR LEVITT, JR. TO BE CHAIRMAN OF THE SECURITIES AND
EXCHANGE COMMISSION

ALAN S. BLINDER TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

JOSEPH E. STIGLITZ TO BE A MEMBER OF THE COUNCIL ON
ECONOMIC ADVISERS

JULY 12, 1993 AND JULY 13, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



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NOMINATIONS OF:

**RICHARD SCOTT CARNELL TO BE ASSISTANT
SECRETARY FOR FINANCIAL INSTITUTIONS,
DEPARTMENT OF THE TREASURY**

**SUSAN GAFFNEY TO BE INSPECTOR GEN-
ERAL, DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

**EDWARD DeSEVE TO BE CHIEF FINANCIAL
OFFICER, DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

MONDAY, JULY 12, 1993

**U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
*Washington, DC.***

The committee met at 10:05 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The committee will come to order.

Let me welcome all those in attendance this morning. Today, the committee will consider three nominations. We'll consider the nomination of Rick Carnell, to be Assistant Secretary of the Treasury for Financial Institutions; Susan Gaffney, to be the Inspector General of the Department of Housing and Urban Development; and G. Edward DeSeve, to be the Chief Financial Officer of the Department of Housing and Urban Development.

These are three very important positions that need to be filled with highly talented people. Fortunately, we have nominees that fit that description.

We're going to start first with one of our own, Richard Carnell, who is at the table now. Let me say at the outset the pride and enthusiasm that I feel about having Rick here and being able to support his nomination to be Assistant Secretary of the Treasury for Financial Institutions.

I want to welcome Frank Newman, who is here as well today. We appreciate his presence at this occasion.

For the record, Rick has served on the staff of this committee since 1987, and while as a counsel to this committee, it's entirely appropriate and accurate to note that he has been instrumental in the drafting of every major financial institutions bill that has been reported by the committee and subsequently enacted into law. This includes a number of landmark items—the Competitive Equality Banking Act, the Financial Institutions Reform, Recovery, and Enforcement Act, the Federal Deposit Insurance Corporation Improvement Act, as well as many more.

He was also instrumental in the drafting and movement through here and on the floor of the Financial Modernization Act of 1988, which, of course, passed the Senate, but was never enacted into law in the form that we had intended, as well as the Fair Trade and Financial Services Act.

He's worked on amendments for virtually every member of the committee, as well as numerous Senators off the committee.

Prior to his coming to join us here, Rick served in the general counsel's office at the Federal Reserve Board. I think his qualifications are well known to all the Members of this committee. He is an energetic individual, a fine writer, a very good problem-solver, negotiator and strategist. He's also an experienced banking lawyer and we have found here time and again, a team player.

Rick, as I mentioned at the outset, I take considerable pride in your nomination. I think you take with you now into the administration, when confirmed, the working knowledge of everything that we've been involved in here, the orientation of the Senate toward these issues, particularly strengthening our financial system and dealing with a lot of problems that had accumulated over time.

And so, I look forward to you bringing that know-how and experience from this vantage point into these new duties and to be able to reflect that experience and that accumulated wisdom there. We look forward to continuing to work closely with you.

I will have a few questions for you today after you make an opening statement.

Let me have you stand and raise your right hand.

Do you swear or affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CARNELL. I do.

The CHAIRMAN. Do you agree to appear and testify before any duly constituted committee of the Senate?

Mr. CARNELL. I do.

The CHAIRMAN. Very good. Again, we're pleased to have you and we'd like to hear your statement now.

STATEMENT OF RICHARD SCOTT CARNELL, GAINESVILLE, FL

Mr. CARNELL. Mr. Chairman, I'm pleased and honored to appear before you today—in a familiar room, among many old friends, but in a new capacity—as the President's nominee to be Assistant Secretary of the Treasury for Financial Institutions.

Thank you, Mr. Chairman, for your very kind personal remarks and for your courtesy in scheduling this hearing so promptly.

I'm proud to have served this committee during some of the most eventful years in the modern history of U.S. financial regulation—

years in which the committee and the Congress, in a bipartisan spirit, confronted and helped correct some grave weaknesses in our financial system.

Among the accomplishments of those years, I would particularly note the progress made toward cleaning up the thrift industry, strengthening the banking industry, and recapitalizing the Bank Insurance Fund. Although the job isn't finished, the progress is real: the taxpayers are safer, banks and thrifts are sounder, and the financial system is more resilient. Because banks and thrifts have strengthened their standing with depositors and investors, they are better positioned to fuel sustainable economic growth and prosperity.

If confirmed, I would work to keep depository institutions safe and sound, to reduce the total cost of regulation, and to remove impediments that prevent credit from flowing to creditworthy borrowers, whether those impediments involve outdated rules, inefficient practices, or invidious discrimination. I want to see our financial institutions, large and small, be the strongest in the world and see that strength flow to all sectors of American life.

I would look forward to working closely and constructively with this committee and its Members, both Democrats and Republicans. I would hope we could continue the same bipartisan spirit in which the committee and the Senate supported funding to finish the thrift clean-up.

I would also look forward to continuing to work with the exceptionally able Treasury team led by Secretary Bentsen, Deputy Secretary Altman, and Under Secretaries Newman and Summers.

I'd be pleased to answer any questions.

The CHAIRMAN. Let me again just say at the outset that when we have Members of this committee staff, professional staff, move on, as we have had both from the Republican side of the aisle, and now the Democratic side of the aisle, it's a special occasion for the committee because this is a committee that works long hours over many weekends. It's often a 7-day-a-week job, especially when we're in the midst of complex legislative effort.

So when a person who's labored here for many years is asked by a new President to go and take an important Executive Branch position, we feel as if we all go with you in a way. You go by yourself obviously to express the will and the orientation of the new administration and to bring your own talents to bear, but you certainly take the affection and the sense of affiliation of all of us here, Members and staff alike, into this assignment.

We, in a sense, expect more from you than we do from others because you do come from this team, and so, we expect you to be a standout there.

I want to underscore your mentioning, and properly so, the importance of bipartisan cooperation.

As you know from your experience on this committee, we try in every possible way to work on a bipartisan basis. It's very rare that a situation divides the committee on a partisan line basis, and it never has on substantive legislative issues during the time that I've been Chairman, since 1989.

So I want to say to you that it's my desire to work closely with you, as the majority of the committee and as the party in control

of the Senate in terms of the conduct of the Senate, that I want to be sure that we have continuation of the very good bipartisan working relationship that you've known here on the committee. I want to make sure that we think and work sort of as a unit to try to think about what's good for the country and not get off on partisan sideroads. I know that's your orientation. You've stressed it today. But I want to reinforce it in terms of my comments as well.

Let me ask you, if confirmed as Assistant Secretary, what you would see as your top operational priorities?

Mr. CARNELL. At this point, I'd emphasize three related objectives, which I touched on in my opening statement.

The first would be keeping the financial system safe and sound: making safety and soundness regulation more effective, while seeking to reduce its cost and paying particular attention to issues of systemic risk.

The second objective would be to reduce the total costs of regulation—looking closely at our current system of regulating banks and thrifts with an eye to reducing the total costs it imposes.

Let me emphasize the importance of considering total costs.

The costs of regulation aren't just what banks and thrifts pay out of pocket for compliance. Those costs include deposit insurance premiums. They also include the opportunity costs of regulation—the good things that would have happened if regulation hadn't stood in the way.

Our current regulatory system arose haphazardly over the years. It's like a huge and complex machine that's been around longer than anyone can remember, with many new parts added and few parts ever taken away. We need to examine whether all those parts are really necessary—whether there might not be a simpler and better way to get the job done.

Let's take an area like safety and soundness.

I'd like to see us identify rules that do the most good and have the greatest potential benefit—also, whether there are rules that impose costs that exceed their benefits. We could then prune away the unproductive rules and work to make sure the remaining rules, the ones that are really doing the good, are working as efficiently and effectively as possible.

Now I don't suggest that simplifying the system will be easy, and I think we need to be very careful about unintended consequences. But I don't think there needs to be a conflict between greater efficiency and greater safety and soundness.

The third objective I'd point to would be removing impediments that prevent credit from flowing to creditworthy borrowers—looking at the whole range of impediments and seeing if we can't make our financial system more responsive and more effective.

The CHAIRMAN. Let me ask you this. There have been several articles written just in the last 2 or 3 weeks, a series in the Washington Post, among others, about the future of American banking, with the consolidation of banking and the disintermediation and funds going into alternative type financing institutions of different sorts.

To what extent do you think the banking charter, business charter, needs to be altered and perhaps broadened in order to enable banks to do what they must do and, in effect, not continue to lose

ground to other players, or is that not a matter of great consequence, do you think?

Mr. CARNELL. This is a very important issue. We in the administration will be looking at it closely. At this point, I don't feel ready to offer a conclusion, but the subject will get very close and earnest attention.

The CHAIRMAN. Well, let me ask you this. In terms of any broadening of the banking charter of traditional, conventional banking, do you see any action which will broaden the basis upon which banking takes place? Do you see anything there that looks safe and intelligent as an expansion of activity?

Mr. CARNELL. I'd expect that there are. Again, I hesitate to suggest a particular area right now. I think this needs close and co-ordinated study and a careful discussion back and forth within the administration before taking a position.

If a business is being conducted with private capital right now, without the benefit of deposit insurance, we should be careful about allowing a new movement of depository institutions into that business. But it's also important that depository institutions have a viable charter and that legal restrictions don't impose needless costs by preventing institutions from doing something safe and sound that's a logical continuation of their core business.

The CHAIRMAN. I'm struck by the fact that as the banking industry becomes stronger, as it deals with accumulated balance sheet and asset-type problems, as banks strengthen their capital position with stronger earnings and more retained earnings and, in some cases, going out and seeking additional capital, that as that necessary strengthening of the foundation of commercial banking occurs, and it's not complete yet, by any means, and there are still problems out there. But the issue of how the banking charter is to be exercised in the context of Federal deposit insurance, I think is a very compelling national issue. It's not a simple issue, in light of our past experiences, both with the savings and loan situation, and then with the commercial banking situation.

I think we may well have averted a far more serious crisis in the banking situation than is generally thought to be the case right now with the steps that have been taken to shore up the foundation of that industry with legislation and with other regulatory initiatives.

But the question of what is to fall within the bounds of a banking charter, when you have deposit insurance in the picture and you have these Federal Reserve policy attributes in terms of the flow and the controlling of at least part of the flow of credit in the country, I think it's very important that these issues be examined and that we not allow them just to basically spin endlessly in an orbit that doesn't lead to some intelligent set of conclusions.

We've gone through that here, as you know, on this committee. We went through an effort to very carefully balance a set of adjustments in the bank operating charter that I thought, and the majority of the committee, in its wisdom, thought made sense.

For a variety of reasons, including the jurisdictional divisions on the House side, and the timing of that legislation, and also the fact that the Treasury Secretary at the time, Secretary Brady, decided to withdraw from the field of battle on some of those issues, we

were not able to take them forward beyond having taken them through this committee and through the Senate floor.

There's never a perfect time to do this, and I'm not suggesting that we're ready to do it tomorrow morning. But I do want to examine now very carefully with an administration that is fully operational—in other words, with its executive team fully in place—I want us to look afresh at the question of the operating charter of commercial banks within the context of Federal deposit insurance and this evolving competitive picture that's out there.

I'm somewhat concerned, as I see banks able to earn a profit with little risk in Government securities, creating a false sense of strength for the banking system and I think, for that matter, even for the economy.

I want to make sure that we're making sure that credit needs are being met. I'm not satisfied in that area at the present time with respect just to commercial borrowers and particularly small borrowers.

Also, I want to make sure that we've got a blend of business alternatives available to banks that fall within the bounds of safety and soundness that help stave off a mindless disintermediation that can happen when people yank their money out of insured institutions and go into uninsured or less well insured situations that could end up in the future having problems of their own.

And so, I'm concerned about that. I think deposit insurance doesn't mean much until you need it, and then it means a lot. It means everything.

I want to make sure that we don't have a situation where banks are weakened from a business charter point of view by virtue of a whole series of random events accumulating and trend line evolution taking place that leaves us in a situation where the system just doesn't work as well as it ought to.

So, having said that, I want to make sure that we're in a position to pursue those issues. And I say that to you and to Mr. Newman both, who's in the room here today.

We've got a full plate at the moment in the Finance Committee because we've got a budget bill to pass and we've got health care coming down the track, and we've got a lot of jobs that are still vacant that we are yet to fill, especially in the financial side of the Government. In due course, I want us to examine these issues carefully, objectively, and if we think something needs to be done, then I'd like to work together to draft what that might be and at an appropriate time, see if it can't be accomplished.

Mr. CARNELL. I share your desire to see these issues resolved. They've been kicking around for a long time.

Senator Garn used to complain, eloquently and emphatically, that when he arrived here back in 1975, largely the same interest groups were talking about largely the same issues in largely the same way, and not much had changed.

Now progress has been made in clarifying issues like Glass-Steagall reform. This committee has twice approved major Glass-Steagall reform legislation, and the Senate has also passed such other major structural reforms as interstate banking.

I agree with you that we should not become complacent because of the banking industry's high earnings and improving capital posi-

tion. We certainly can't expect these operating conditions to go on forever. We need to be careful that disintermediation doesn't weaken the financial system. And I certainly agree that depository institutions need a viable business charter.

The CHAIRMAN. I'm very much concerned in this area of discussion about lending to small- and medium-sized business. I think we're in a situation in the country where, despite the fact that there are other financial intermediaries in the picture, that the availability of loans and financing credit for small- and medium-sized firms still falls back principally on the commercial banking system.

Somehow or another, in that area, we've got to make sure that the vitality of the commercial banking system to both want to do that area of lending and have sufficient strength and muscle to do it, that we're seeing to it that that is in fact happening.

I see too much evidence that causes me to question whether that's being done today. Now part of that is business cycle issues. Part of it is borrower strength and quality issues and such. But having said that, I'm concerned about seeing a diminished flow of credit making its way through the traditional banking system to small- and medium-sized borrowers just spread out across the country.

I think it's hurting the country. It's a very hard issue to get a hold of. I know the administration has tried through administrative means, through regulatory initiatives, through discussions of regulatory consolidation and other things, to figure out how we do this.

I don't get the feeling that we're breaking through the problem. And so, I want to figure out how we do that. I think it's very important that we step back and think afresh as to the question of how we get the right signals and strengthening moves in place and the right regulatory structure in place so that the flow of credit, of justified, sound credit, lending credit, makes its way out into the business system, including into inner cities.

It isn't just the question of the traditional automobile dealer or an appliance store dealer in a community or something of that kind. I think it's also the question of how we get capital, the oxygen of the free enterprise system, into areas that are capital-starved today.

Now some of that is done through public programs and combination public/private programs. But I think through the community reinvestment approach and other things, we've got to find a better way to not exactly flood capital into these capital-malnourished areas, but get enough in so that the free enterprise system has a chance to work. You can be the smartest person in the country with a good idea, and if you can't get your hands on enough wherewithal to put your idea into play, not much is going to happen.

I think we've had a very uneven society that way. We've seen places where money gets to very easily and we've seen places where money almost never seems to arrive.

I'm interested in focusing on these issues. We need to take the time to take a look at that—I don't think we should just coast on into the future. The fact that we've gone ahead and done the job that we have with respect to strengthening the deposit insurance system with on-site exams and the other reforms and initiatives

that we now have in place, I want to be in a position to not just find that we're behind the curve on the next wave and we wake up 5 or 7 years from now and say, well, we should have been doing this and so back in 1993 or 1994. I'd like to get us up to speed in real time.

I take the time to talk about this today because I think you bring a perspective that's very valuable into the Executive Branch of Government with an ability to think in terms of the interplay of these forces and factors in the history, the track we've been over.

I think now we've got to be intelligent and prudent in what we do, but we can't just be locked and frozen into a position where we don't do anything because sometimes doing nothing can set you up for more problems than intelligent, managed change which is something that we've considered very carefully.

So, in any event, I'd like to see us engage these issues over the next several months. Let's see what we can determine.

Mr. CARNELL. We certainly want to follow up on that, Mr. Chairman. The banking system has a crucial role in providing credit to small businesses, whether in rural areas, inner cities, suburbs, or other parts of the country.

We need to look very closely at what impediments prevent credit from flowing through the system to creditworthy borrowers. The administration has already taken some important steps to increase the availability of credit to small business. Those reforms are being implemented right now, and should be bearing fruit.

I think we should also look closely at the innovative proposals that have been put on the table by Senator D'Amato, Representatives LaFalce and Kanjorski, and others—how we can maybe push the edge of the envelope and allow securitization, which has come to play such an important and constructive role in facilitating home ownership, to play a greater role in providing credit to small business.

The CHAIRMAN. I appreciate your saying that. I think the securitization of small business loans of the sort that Senator D'Amato and I have been working on, is important. He's really pressed that issue forward. I want to move ahead on that, as you know. I want us to figure out the best way to accomplish that and get the pluses and not the minuses in a package.

Finally, as you know, lending discrimination is a key issue for me and this committee. We've got all too many instances of people being denied credit, either on the basis of race or on the basis of gender or other factors like that.

Not only are those violations of the laws of this country, but they violate everything that the country stands for. I want you to tell me you're going to be very aggressive in working with the new administration, which I know has a very strong feeling about this as well, and hitting those problems head on and getting them corrected.

Mr. CARNELL. Absolutely, Mr. Chairman. I share your goals on that point and we will be pressing ahead firmly.

The CHAIRMAN. OK. I'm going to give you some other questions for the record. You may have some from other colleagues as well. I'm going to thank you for your testimony today and we're pleased to see you here and we wish you well.

Mr. CARNELL. Thank you, Mr. Chairman.

The CHAIRMAN. We look forward to working together. Let me excuse you now and let me call our next witnesses to the table.

Let me invite Ms. Susan Gaffney to come forward, and also Mr. Edward DeSeve. I've announced earlier the positions that they're being considered for.

Let me also do something else. I see a former House colleague of mine, Bill Green, here today. Pull a chair up. Would you like to come up and make a statement about one of the nominees here? I suspect you may. I'd just be delighted to have you do that.

Pull the chair right up there. And as you're coming up, I want to just show everybody a photograph of you and me and Bill Steiger, unfortunately now deceased, from 1967. This is a photograph of the two of us, along with the late Bill Steiger, standing out on the Capitol steps, as the three 28-year-old Members of Congress that had been elected in the year 1966.

This fellow with the square jaw right here in the center you recognize?

Mr. GREEN. With the dark hair?

The CHAIRMAN. The dark hair, yes.

[Laughter.]

Dark hair.

Mr. GREEN. And no wrinkles?

The CHAIRMAN. That Mt. Rushmore profile.

[Laughter.]

In any event, when I saw you in the audience today, I was reminded of those early days together. So I asked somebody to go down and dig this out of the archives so that you could go back over the years. That's now 27 years ago.

Mr. GREEN. Right.

The CHAIRMAN. It's a delight to have you here today and I thought I'd invite you to come on up and make whatever comments you'd like about one of the nominees here.

Mr. GREEN. You're very kind. It's nice of you to ask me to come forward. I had no idea. That's quite a surprise, as you know.

I've come here today because a fellow who was a member of my cabinet, in addition to being a close personal friend, is one of the nominees today for the Chief Financial Officer's job at HUD.

Frankly, and briefly, it is encouraging to me to see nominees of this quality, and I say this because I have worked with this man. I begged him to join my cabinet. At first he told me that he was unable to do that. He was then 34 years old. He was the Finance Director of the city of Philadelphia for 2 years during my administration.

He served with great distinction and at great sacrifice. I am confident that is exactly what he is about to do again, should he be confirmed by this committee, that the Government is lucky that people of his calibre and quality are willing and anxious to serve. I think that the people are getting a bargain far greater than they can have any idea.

To the extent that my administration had success in coming to grips with the very severe financial problems that Philadelphia faced when I was sworn in as mayor of that city, it was Ed DeSeve's understanding of the situation and recommendations to

me and the implementation of those recommendations that took a city that was on the verge of bankruptcy and straightened it out in quick order, with the tough decisions that had to be made.

So, we're dealing with someone who could, if he chose simply to go out and make a lot of money, that's pretty easy. But he's chosen to serve again, and I'm encouraged as a citizen.

And I thank you for asking me to come up.

The CHAIRMAN. Very good.

Mr. GREEN. And I'd love to see that picture.

The CHAIRMAN. Why don't you come on up and sit up here? Come sit right up here.

Mr. GREEN. Can I question him?

[Laughter.]

The CHAIRMAN. Well—we'll consider that, too. Come on up and join me here.

Thank you for that statement, by the way, that's high praise. We're pleased to have that both on the record and as a statement that will be important in the consideration of the committee.

Let me now say again that the two positions here, Chief Financial Officer of the Department of Housing and Urban Development, and the Inspector General's position, are absolutely critical positions. We've had lots and lots of problems at HUD. We've just had the Secretary come in just within the last 2 weeks to state again the difficulties that he's found upon taking over the Department and to work through a lot of the difficulties.

I think the problems are long-term. I think in many cases they're systemic problems, and they're going to take extraordinary effort and leadership to work through them. I appreciate the fact that both of you are prepared to tackle these matters.

We have a 1979 report by HUD's Inspector General that stated that "inadequate monitoring and insufficient on-site reviews of program participants have seriously jeopardized HUD's interests and permitted waste and management to go unchecked." Usually, these IG reports are watered down, but I'd say that's a pretty powerful indictment coming from that 1979 statement.

Thirteen years later, the HUD Inspector General warned again, and I quote, "Another HUD scandal is a distinct possibility." I think we've found that to be the case, in fact. The comment was made in the context of whether the agency had the resources needed to address its management problems.

I think these warnings are of extreme importance, particularly when one considers that the Department is overseeing in excess of \$1 trillion in obligations. So I think the position of Inspector General at the Department of Housing and Urban Development is one of the most important ones that we have in Government.

Ms. Gaffney brings an impressive record of public service to these duties. She's held senior positions within the Federal offices of Inspector General now for over 10 years. During the course of her career, she's dealt with the many aspects of Inspector General operations, including audits, investigations, and overall policy and management.

During her service as Chief of the Management Integrity Branch of the Office of Management and Budget, she coordinated support for Inspector General activities throughout the Federal Govern-

ment. Prior to her service in that position, Ms. Gaffney served as acting Assistant Director of the Financial Management Division. She has also held the position of Assistant Inspector General and Deputy Inspector General for the General Services Administration.

In addition to this extensive work that's directly related to the tasks of Inspector General, she's also worked in the housing arena, having started her career over 20 years ago as a staff analyst at the Department of Housing Preservation and Development for the city of New York. I think that experience also is important in terms of her background.

I'll make another comment just as I finish with Mr. DeSeve here.

Your public service career also began 25 years ago as a VISTA volunteer in California, and then you went on to serve as Deputy Director of the model cities program in Fresno.

I think it's fair to say that you possess extensive experience in municipal finance and the management of public agencies. For more than a decade, you've held a variety of positions handling finance and budget issues for the city of Philadelphia, most notably, serving as Chief Financial Officer from 1980 to 1983, as former Mayor Green has just stated here in his remarks on your behalf.

You've also, I think it's important to note, had significant experience in the private sector as a Managing Director of the Merrill Lynch capital markets. You directed all municipal finance activities in a 20-State region. As Founder and President of the American Capital Group, you've got the chance to provide financial advice and investment banking services to Government and nonprofit organizations across New Jersey, Pennsylvania, and Delaware.

Most recently, you've served as a Senior Advisor to the governor of Pennsylvania, with oversight responsibilities for the State departments of public welfare and public health, as well as serving as the liaison with the city of Philadelphia and the Southeastern Pennsylvania Transportation Authority.

In the wake of the HUD scandals of 1989, Congress created the position of Chief Financial Officer to help remedy the pervasive problems at HUD caused by inadequate internal controls and financial management systems.

HUD's programs currently entail \$379 billion of Federal Housing Administration insurance-in-force; \$14.1 billion in property and other assets; \$422 billion of Ginnie Mae Mortgage-Backed Securities; \$100 billion in long-term housing subsidy commitments; billions of dollars of outstanding grant commitments; and an average of \$25 billion in annual budget authority. Now that's a lot of water-front to keep track of.

This large volume of commitments held by the Department, coupled with inadequate controls which past IG's have focused upon, leaves the Federal Government highly vulnerable to fraud, abuse, and the potential for the waste of billions of dollars in unnecessary losses.

Secretary Cisneros has testified before this committee several times and has pledged his commitment to rebuilding and reforming HUD. The Chief Financial Officer will play a critical role in rebuilding the agency and in correcting many of the deficiencies highlighted by the Inspector General.

As a result of the work of the most recent Inspector General, it's clear that the CFO, as we call him, and other HUD managers, will have their work cut out for them. I want to commend the President for his nominations of both of these individuals. I think it's not easy to find highly qualified individuals to take on these assignments, especially because there are a lot of problems to dig through here.

I think you bring a great experience in both instances to this and we look forward to having your testimony today and to your service when confirmed.

Let me ask you both to stand. I'm going to give the oath to both of you.

Do you swear and affirm that the testimony you're about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Ms. GAFFNEY. I do.

Mr. DESEVE. I do.

The CHAIRMAN. Do you agree to appear and testify before any duly constituted committee of the Senate?

Ms. GAFFNEY. I do.

Mr. DESEVE. I do.

The CHAIRMAN. Very good. Ms. Gaffney, let me ask you first, and then we'll follow with your colleague, is there anyone here in the audience that you'd like to introduce? Please do so, and then we'd like your statement at this time.

Ms. GAFFNEY. Yes, Mr. Chairman. Thank you very much. In the third row here, we have my mother, Mary Larson, who has come from Dubois, Pennsylvania.

The CHAIRMAN. Why don't you stand up? Let's have a look at mom here.

[Laughter.]

Ms. GAFFNEY. And who watches you all the time on C SPAN.

The CHAIRMAN. I see.

Ms. GAFFNEY. We have my brother, sitting next to her, who has come from Williamsburg, Virginia. And to my mother's left is John Connors. John has been the acting Inspector General at HUD for 18 months. He has done a fine, fine job. We are all, I think, in his debt.

The CHAIRMAN. I think he's also happy to have you arrive on the scene here, take this stone off his back and put it on yours.

[Laughter.]

Well, we're delighted to have those people you've just introduced here today.

STATEMENT OF SUSAN GAFFNEY, FALLS CHURCH, VA

Ms. GAFFNEY. Thank you, Mr. Chairman. I am honored to be here. With your permission, I would like to have my written testimony entered into the record—

The CHAIRMAN. Without objection.

Ms. GAFFNEY. —So that I could just make a few remarks. And my remarks go to what you were saying, in a sense. That is, I would like you to understand why I see the position of HUD IG as an exceptional opportunity.

One, I believe in HUD's programmatic mission. I think it is incredibly important for this country, and as you noted, I started my career in the housing area, when I left Cornell to try to save the world.

Second, I think we have, with Secretary Cisneros, Deputy Secretary Duvernay, and the Assistant Secretaries—and Ed DeSeve stands as a model—outstanding leadership and management capability at HUD now. I think we have a chance that is extraordinary with this group of people.

Third, I note that the concern on the part of this committee with HUD and its progress has been conscientious, has been constant, and has involved the devoting of substantial time and resources to the exercise of oversight.

Fourth, I would note that the problems at HUD, while they are big and they are complex, are not esoteric. They are solvable problems.

Fifth, I would say to you that the IG staff that is in place at HUD is knowledgeable, competent, and motivated.

Under these kinds of circumstances, it seems to me that the IG has an exceptional opportunity to be an agent of change, to be more than an independent and objective reporter to the Congress and to the Secretary, to move beyond that concept, to make sure that the independent and objective reporting is for the purpose of effecting positive change.

When Secretary Cisneros talked to me about the IG position at HUD, I said to him that I wasn't sure that I was interested. If it were going to be a situation where I would simply be issuing more reports that would be ignored in large part, I really wasn't interested.

He assured me that would not be the case and I have every reason to believe that will not be the case.

For me, with 14 years in the Federal IG community dedicated to integrity, efficiency, economy, and effectiveness, I just cannot imagine a greater opportunity or greater potential satisfaction.

I know that all of that would be possible only with your support and your committee's support. If confirmed, I would pledge you my support, my cooperation, my collaboration, and the full sharing of information.

I thank you very much.

The CHAIRMAN. OK. I appreciate that statement. Let me tell you what I'm looking for.

I want you to be tough as nails in this job. You have a wonderful smile and manner of presentation. I hope that beneath that sunny exterior, there's a fiercesome—

Ms. GAFFNEY. You should talk to my friends and colleagues.

[Laughter.]

The CHAIRMAN. Good. Good. Well, I'm glad to hear that because I think this may be the challenge of your professional career because of the problems that have accumulated over a period of time.

And I must say, too, that I think the thinning down of resources at HUD over the last decade have contributed to these problems. This is my personal view. But you can't run a big, complex organization unless you've got the horsepower at the top and at the administrative levels that is highly competent, where there are

enough people to keep track because there are a lot of very highly paid and talented people on the other side of the table that will take the Government to the cleaners, literally, if we're not equally matched in terms of the team that we're putting forward.

I think a terrible dereliction occurred during the 1980's in shaving down the talent and the number of people needed to really stay apace of these problems.

I think there are problems out there that we're just now going to fully understand the magnitude of because we're going to have a chance to take a fresh look with people like the two of you.

So I want it all laid out. I don't want anything held back and I don't want a lot of delay. I want everything—as soon as you understand that we've got problems or Mr. DeSeve, as you do, I want those things put out into the light of day. I want us to sort through them.

This administration is a fresh administration. It's come in without any programmatic or political baggage with respect to what the problems are. And so, I'd like a thorough housecleaning from top to bottom.

Let's figure out where our problems are. Let's be frank about it. If we've got exposures that go beyond what anybody knows and what have been fully recognized, I want those sized up. I want them presented. I want to know what the alternatives are for dealing with them. But I don't want any overlay of fiction or holding back on the theory that these problems are too tough to lay out fully or in the kind of searing reality that may be involved.

In any event, I want this work done. And I don't want anything held back, and I don't want it to take forever. I mean, I want you to get right at it and let's find out what's what.

If you see anything that is amiss, I want you to act on it very promptly. If there is any sluggishness anywhere along the line, I have a telephone here. I'll make time any hour of the day or any day of the week to meet with you to make sure that you've got what you need in the way of muscle to go ahead and get it done.

I don't say that presuming that you're going to have any problem. I've talked to the Secretary. He's as eager to do this as I am. But I want HUD taken apart, re-engineered. I want to know what the problems are. I want them identified and fixed. And I want to know that at the end of this 4-year term in this administration, that we've got HUD back on a professional footing and a sound financial footing in which we can have confidence.

That's your charge and that's your charge. No ifs, ands, or buts about it. That's part of what the last election was about, to create a change and a chance to come in and take a fresh look without a lot of hubris and just basically wade through it all.

So we've done that with the savings and loans. We've done that in the commercial banking system. I want to get it done now in HUD. And I want to move. I want to move at a good, rapid pace. I take it that you understand that and you agree with that and I can count on you to proceed in that fashion.

Ms. GAFFNEY. Mr. Chairman, I believe that is what the IG Act was all about.

The CHAIRMAN. OK. Very good. Now, articles in the Washington Post and The New York Times have suggested that the transition

report found that HUD remains plagued by "criminal management failures" and systemic weaknesses that put more than \$1 trillion in programs at risk and exposes the Department to fraud and abuse. That's a pretty tough finding.

What's your assessment of those findings as you sit here today?

Ms. GAFFNEY. I think that's essentially the same finding that Price Waterhouse came to in its recent audit of HUD's consolidated financial statements. It essentially is a finding that, systemically, HUD is so weak that there can be no reasonable assurance that virtually any of the funds—and that trillion-dollar number includes FHA insurance, Ginnie Mae guarantees, and the annual appropriations—are being spent and accounted for properly, or that they're achieving their intended purposes in compliance with laws and regulations. There is not that type of systemic, overall assurance.

That doesn't mean that there is immediate, direct risk in every one of those dollars involved. But, for instance, if you went further, as HUD did recently in the multifamily loan program, and looked at a sample 13 percent of those \$43 billion in multifamily loans that are insured, the finding was pretty dramatic and pretty negative.

The finding was that the loan loss reserve in fact had to be increased by \$6.4 billion, more than double the loan loss reserve in place.

In my judgment, however, we can't afford to go on trying to identify the precise amounts of risk in every area. In fact, we have to go to the overall systems of internal control and we have to get them cleaned up. That has to be our first priority.

The CHAIRMAN. Do you think you have the resources that you need to get that done?

Ms. GAFFNEY. In HUD?

The CHAIRMAN. Yes.

Ms. GAFFNEY. That's not at all clear to me. Look at the situation in Ginnie Mae, for instance, with 68 people overseeing \$422 billion in mortgage-backed securities, or consider the recent IG report on multifamily loan servicing that said, in one field office, we have one loan servicer serving 108 projects. The IG looked at State finance agencies and found that their average was more like 12 to 16 projects per loan servicer. Or look at CPD funding, which has increased dramatically over the last several years while their staffing has decreased.

I think if you look at almost any area of HUD, on its face, it would be difficult to draw any conclusion except that the staffing resources are not up to the mission.

The CHAIRMAN. Well, let me suggest this to you. I think this is an extraordinary problem and challenge. I don't know that we've got anything that's quite comparable to it, where you've got a major cabinet office where it's sort of languished over a period of time.

That is not to find fault with any particular HUD Secretary. I think it was a de-emphasis during the Reagan years and it became something of a backwater and there were problems, as we've seen from just the criminal actions that have been taken against some. I don't think that's finished yet.

I think it's very difficult, given the flow of one administration to another, to go back through and do the kind of fundamental over-

haul when it's the same party, and regardless of which party it happens to be. When you have a change and you have a fresh team come in, that's the time to really hit this thing and do what needs to be done.

I would like you to decide in the next 60 days if you need additional people, and I say this to you, too, Mr. DeSeve. If, between the two of you, it's obvious that to really get on top of these problems and make sure that we're heading off big losses or doing everything we can to head them off down the line, an abuse of the system one way or another, if you find you need an additional 50 people, 100 people, whatever it takes, auditors, people of particular financial talents, I think you have to be prepared to say that, very bluntly.

I'm sure the Secretary will ask for it. I will ask the President to endorse that. I will make the representations here. I'm sure Senator D'Amato will join me. I don't mean to speak for him in saying that, but he's been very supportive of initiatives of that kind.

If we have to put it through as a supplemental appropriation of a special sort in order to avoid big financial losses to the Government, I think that's what needs to be done. I think this falls into a different category than what we often see.

And so, given the fact that we've got over \$1 trillion worth of liabilities and contingent liabilities out there, I just don't want this thing to run any longer that way. This is the first opportunity that we're going to have to come in where there can be a clean break from the past and you can call it as you see it.

I want to know how many people we need and let's price it out and let's make sure we've got enough people to really monitor this activity.

I suspect that the talents we need to have in these financial watchdog positions will more than pay for themselves. In other words, we can either pay a little bit of money for a competent management system or we can spend a whole lot of money to pay for the mistakes that leak through an incompetent management system.

I want to spend the money to tighten the system up so that we can turn around. I think that this new President has to be able to go back to the voters in 1996 and on a list of accomplishments, he has to be willing to say, look, we've taken the HUD situation and as difficult as it's been, we've cleaned it up. This is where we were when we walked in the door and this is where we are 4 years later. People can have confidence and the financial statements, the risk assessments, and we've put as strong a financial structure and foundation under it as we possibly can within that period of time.

That's the charter that you have and there's no mistaking it. That's why I take the time to make sure it's embedded in your mind and embedded in this record, because that's how I want to see us go here.

I've got a number of other questions that I'm going to have you respond to, Ms. Gaffney, for the record. I've got about 15 or 20 that are detailed. I can take you through them now. I'd just as soon have you give me good, solid written responses for the record.

I think you bring the kind of experience in your previous work that convinces me that you've got the skills and the talent and the

history, and you've made it clear as well, the motivation and purpose, to go ahead and do this job.

I'm going to have you respond to these in a detailed way, item by item. Once we have these back, then we'll be ready to move ahead.

Let me now move to your colleague. Let me now invite you, Mr. DeSeve, if there's anybody here that you'd like to introduce, other than my good friend and former colleague here, please do so at this time. Then we'd like to hear your statement.

STATEMENT OF EDWARD DeSEVE, PHILADELPHIA, PA

Mr. DESEVE. Thank you, Mr. Chairman.

Back in the fourth row, I'd like to introduce my wife Karren.

The CHAIRMAN. Let's have her stand. Nice to meet you.

Mr. DESEVE. And a couple of rows behind her, the senior public financier in the DeSeve family, Dr. Charles DeSeve.

The CHAIRMAN. Very good.

Mr. DESEVE. We have several members of the career staff. I won't introduce all of them here today. I've enjoyed over the last several weeks getting to know them and work with them. They're a dedicated group of staff in the CFO's Office.

The CHAIRMAN. Why don't you go ahead and make your opening comments.

Mr. DESEVE. Thank you very much, Mr. Chairman, for allowing me the opportunity to appear before you today. I'm honored to have been chosen by Secretary Cisneros and nominated by President Clinton to serve as the Chief Financial Officer of the Department of Housing and Urban Development.

After meeting the group of people that Secretary Cisneros and the President have assembled at HUD and getting to know the career staff, I'm further honored to be in such good company.

I am not here alone today. My wife Karren, who has been the great source of love and stability in my life, is here as she has been throughout almost 24 years of marriage. Our son Gerry is hard at work in Boston but his enthusiasm, good sense, and family love are supporting me today.

My father died almost 30 years ago, but I never fail to wish that he could have shared days like this with me. My mother was with me until last year and I often miss her courage and good humor.

The job of Chief Financial Officer at HUD is a relatively new position. In fact, if confirmed, I will be the first HUD CFO who has been confirmed to the position by the Senate.

I come not as a stranger to HUD and its programs. My first professional job was with a Model Cities Program in Fresno, California. I have worked with urban renewal agencies, housing finance agencies, neighborhood nonprofits, and others involved in trying to build decent, safe, sanitary housing and helped to create viable, vibrant neighborhoods. I have learned from both successes and failures.

I have found that good intentions must be coupled with good management. The true measure of success is how many people are better off as the result of the completion of a project. Nothing can undermine this success more than financial malfeasance, misfeasance, or nonfeasance.

Congress has set high standards for financial integrity and performance. But these standards are no greater than those which we, as managers, should set for ourselves and our agencies. Financial integrity should be not only an act of Congress, but the way in which we conduct every day business and our professional lives.

Publishing handbooks that decree financial responsibility is not sufficient. We must train managers and employees in the building and operation of competent, carefully integrated systems that allow each level of the organization to have the information on which to base thoughtful decisions and demonstrate the inherent integrity of the process of managing resources.

The overwhelming majority of employees at HUD and throughout the Federal Government care about doing difficult jobs well. It is the responsibility of managers to give them leadership and to provide the tools that will allow them to be successful.

I believe that Congress must be a partner in the management process. The power to appropriate is the power to create and carries with it the responsibility to evaluate and ask how monies are being spent.

I believe that I have an important responsibility to provide leadership to HUD in the management of its affairs so the administration may show Congress and the American people how well funds are being spent and what results have been achieved.

I've identified four priorities that can guide the work of the CFO's Office. I'd like to share them with you today.

First, "To integrate the internal control process at HUD into an overall management plan for the Department." Too often, the elimination of waste and fraud and the safeguarding of assets is seen as external to getting the job done.

As HUD program offices design and refine their plans, the CFO's staff will assist them in identifying high-risk areas and working to assure that these risks are properly assessed and that policies are modified and processes redesigned as necessary.

The CFO's Office will seek the guidance of the Inspector General's Office in the design of this management control process to assure that it conforms to legislative and regulatory standards.

Second, "To revise the Department's financial management systems integration plan to reflect the business plans of program areas."

Information technologies must properly reflect properly designed work processes that are dictated by thoughtful plans. The CFO cannot formulate plans for program areas, but can encourage their creation according to standards that allow for the integration of common processes and information across the entire Department. The CFO must assure that the systems guide programs and produce useful budget, management and oversight information.

Third, "To assist in the creation and utilization of a performance measurement and resource allocation system."

S. 20, "Government Performance and Results Act of 1993" has passed the Senate. This legislation provides important guidance and challenges agencies to improve the way they manage resources, as well as the way in which they measure and communicate the results of their efforts.

HUD has been working on developing its own performance measurement system and is preparing to meet the challenge of S. 20.

Finally, "To monitor and assist with addressing underlying causes of material weaknesses and significant audit findings."

There is no shortage of studies to diagnose the problems at HUD. The Inspector General's Office has been thoughtful and vigilant. Outside auditors and the General Accounting Office have been the vanguard in recognizing potential problems. The job ahead is to accept the diagnoses and proceed with the cure and rehabilitation.

The CFO should be part of a team that fashions the cure and has the responsibility for seeing that progress is made throughout the Department.

The Secretary has made the resolution of management deficiencies his highest priority. This will make my job much easier. I hope that someday, if I am confirmed, we will sit and listen as the Secretary recounts to this committee the progress the Department has made in executing housing programs and urban strategies and I hope that the deficiencies in managing these programs will be a dim memory.

As a wise political leader has said, "We have too much to look forward to to look back."

Again, thank you for the opportunity to be here today and I would be pleased to answer any questions you might have.

The CHAIRMAN. I appreciate your statement.

Let me ask you—I can dig this out of your background statement, but let me just ask you directly. In your last private sector job, what salary level were you at? Do you remember, offhand?

Mr. DESEVE. Yes, I do.

The CHAIRMAN. Do you mind sharing it?

Mr. DESEVE. I'd be happy to. It's in my tax returns, so I can do that. Including bonuses and buy-outs of the company and so on, it was somewhat over \$300,000 a year.

The CHAIRMAN. Right. Do you know what this job pays?

[Laughter.]

Mr. DESEVE. Yes, I do. I think it pays about \$115,000.

The CHAIRMAN. Right, \$115,000. So it's a lot less, isn't it?

Mr. DESEVE. Yes, it is.

The CHAIRMAN. Now, as nearly as I can tell, you could probably stay out in the private sector and do about as well as you did before, couldn't you? Obviously, you'd have to shop yourself around. But would it be fair to say, with your experience, you could probably continue to find gainful employment at that past level?

Mr. DESEVE. It's a tough job market out there, but I would hope to be successful, yes.

The CHAIRMAN. Yes. Well, I think that you probably would be successful. The reason I take the time to put it on the record is that you're not here just looking for a job and you're not here for financial gain.

In effect, I think it's fair to say, I think you undertake some significant financial sacrifice to take on this work, and I appreciate that fact. I'd like to have you explain for the record why you're prepared to do that. Why do you want this job?

Mr. DESEVE. I think it's important that when you can do something to restore the faith and confidence in an institution as impor-

tant as the Department of Housing and Urban Development is for Americans across the country, middle-income families looking for mortgages, and homeless individuals who are seeking shelter, that if you can do that, you should.

The CHAIRMAN. I agree with that and I'm so pleased that you feel that motivation so strongly that you're willing to turn your life around and do this.

I don't mean to suggest anything other than the fact that it's a great privilege to serve in a public capacity. Clearly, it is. And in your case, I think you bring the skills demonstrated both in the public sector and the private sector, to be able to do this job.

I'm very encouraged by the fact that you've been willing to undertake this assignment at this time. This is a tough job. You've had other tough jobs. This is by far the toughest of the jobs you will have faced.

I'd like to ask you to give me the same assurance that I asked Ms. Gaffney, and that is, I want all the closets emptied out down there. I want everything sort of reviewed and evaluated.

Once you've got a clear sense as to what ought to be done in terms of sound financial practice and structure, I want to know what that is, whether you can figure that out in 60 days or 90 days, or however long it takes you to do that, not that you'll have it all at once because you'll do this in phases. You're already at work on it.

I'm going to call you back to have you lay out for us, in a sense, what the state of play is. In other words, once it's clear that you've had a chance to really look at the waterfront and size it all up as a CFO and say, look, OK, here's where we are. It's the nature of the problem. It's in these categories. This is what I think our short-falls are or either our risks or our contingent risks, and this is what I think we need to do to really get the kind of management, financial management structure and system around this problem, and safeguards around this problem that it takes to do it right. And then, I want to make sure that we fight to get that. I don't want to settle for anything less than that. I'm going to ask my Republican colleagues to work with me to see to it that if that means extra money, I think it will be money that will save us money in the long run. I think it will be an inconsequential amount versus what we can save or the risks that we will avoid.

So, again, I feel confident that Senator D'Amato will support me in that effort, as I would him were he chairman, in order to do that. But I don't want to have any illusions. In other words, I think we've got to have a quick, tough assessment of what the nature of the problems appears to be and then I want a plan to deal with it that has enough talent and horsepower with people like the two of you in place to really start to ride herd on things in a new way.

I don't expect to be able to solve all these problems overnight, but I think this is one absolutely critical responsibility of this administration. I know Henry Cisneros feels this way because he didn't have to take the job, either. I think he's as talented as anybody in the Cabinet is to get on top of these problems so that, at the end of the 4-year period which the public has given this administration at this point, to be able to say, this is what we found

when we came in the door. This is what we've done. And here's where we are today 4 years later.

I want us to be able to have an outstanding report card in this area so that the public will feel as if they've really gotten tremendous effort.

I don't think all this story is going to be happy. I think there's going to be a lot of unhappy parts to this story in terms of what some of the problems are that we already know about, let alone ones that you'll ferret out in the course of your work.

So I will be calling you back probably sometime in the early fall to give you a period of time to get on top of things. I take it that you will work closely together. Is that your plan?

Mr. DESEVE. Yes.

The CHAIRMAN. OK. So I, in all likelihood, whether I call you separately or together, I'm going to want to review with you where we are and what that plan looks like.

We can help you get resources you need. Because if you don't get the resources you need, you're never going to catch up with these problems. I don't want you to be bashful about laying out the full scope of the problem. That may be uncomfortable. The Department of Management and Budget may say, don't tell us we need more people because we're trying to squeeze the budget down and blah, blah, blah.

I don't want to hear that. So I want to find out what we need and then let's go and try and get it and see if we can't get on top of things here. Can I have your assurance that you'll approach things in that way?

Mr. DESEVE. I'd be delighted to and I would also comment on Susan Gaffney. Anybody who thinks she isn't tough is seriously underestimating her.

We were in a meeting recently and the sparks flew. And it was appropriate.

The CHAIRMAN. I heard some screams the other day coming from down at the HUD building.

[Laughter.]

And I wondered if somebody was getting the thumbscrew treatment there. So it sounds like Ms. Gaffney was at work there.

Mr. DESEVE. Yes.

The CHAIRMAN. Now, have you discussed with the Secretary, apart from what I've just laid out, what your first line of march is going to be? And if so, can you give me a little bit of that?

Mr. DESEVE. Yes, I have, and it was really, in a sense, the Secretary who gave me my marching orders.

Each week, at the beginning of the principle staff meeting, the Secretary starts by discussing problems of internal control, problems of financial data systems, problems of resource allocation, and concerns the Inspector General has. That is the frontispiece of each staff meeting at HUD.

The focus has been very clearly to get the system in place, get the, as you termed it earlier, competent management system in place, so that each of the Assistant Secretaries can deal with the problems in each of their program areas with staff help from Susan and guidance from her, as well as staff help from myself.

So my job is to get internal control systems in place that work, that are credible, and can be executed by each of the program Assistant Secretaries, to get integrated financial management systems in place, data systems that consolidate the over 200 data systems that exist at HUD. And third, to work to alleviate the material weaknesses as they currently exist, to fix them so that they aren't continuing and systemic in their nature.

Those are my orders from the Secretary and I'm carrying them out now with the assistance of our staff and the program Assistant Secretaries.

The CHAIRMAN. Now, just for the record, in the HUD Reform Act of 1989, which originated here, we, as you know, in that legislation, created this position as a matter of statute because we felt that we were not going to be able to really get hold of things properly until we had a formally designated CFO who brought the heft and the experience that you are bringing.

Along that line, the Inspector General's report on HUD's management control system has cited over 117 material weaknesses over its 10-year life, if you go back and read through all of those documents.

Now, I also understand, and tell me if you understand this to be right, that HUD has been unable to report compliance with the Federal Managers Financial Integrity Act since 1983. Is that correct?

Mr. DESEVE. That's my understanding, yes.

The CHAIRMAN. Now, has that been true of any other Cabinet office that we know of?

Mr. DESEVE. I believe that it has.

The CHAIRMAN. Do you know which other ones may fall into that category?

Mr. DESEVE. Certainly, I believe that Education has also failed to report compliance.

The CHAIRMAN. OK.

Mr. DESEVE. I'll be happy to give the committee a list of those.

The CHAIRMAN. But HUD clearly is in that category.

Mr. DESEVE. Yes, it is.

The CHAIRMAN. Isn't that a major—shouldn't it be in compliance? To be in that status, doesn't that tell us on its face that we've got a problem here?

Mr. DESEVE. There are really two answers to that question.

The CHAIRMAN. Right.

Mr. DESEVE. The easy answer is yes. The second answer, though, is how it gets into compliance.

The CHAIRMAN. I see.

Mr. DESEVE. If it gets into compliance with band-aids and quick-fixes, the cycle will just revisit itself.

The CHAIRMAN. Exactly. Yes. We don't want that.

Mr. DESEVE. We don't want that.

The CHAIRMAN. I don't want the veneer of a fix.

Mr. DESEVE. That's right.

The CHAIRMAN. I want a top-to-bottom fix here.

Mr. DESEVE. And I would not suggest that any other agencies are in that position. Others have said that, so it's not necessary to recount that.

We have to be in compliance with both section 2 and section 4. That means the complete overhaul of data systems for HUD so that those data systems are in compliance, as well as the back-breaking, demanding every day work of dealing with internal control throughout field offices, as well as headquarters, so that at some point in the future, the Secretary can appropriately certify compliance with FMFIA.

The CHAIRMAN. Now, the Inspector General has in the past identified staffing as one of the most serious problems there. The data that I have indicates the following—that between 1970 and 1979, there was a range of staffing during that decade that ranged from a low of 14,700 up to a high of 16,000.

We got into the 1980's, and that began to change. Between 1981 and 1986, the staffing levels were reduced from a high of 16,800 down to a level of 12,000. Now that's a 30-percent reduction. That's a pretty big slide to carve out.

Now there have been some modest staffing increases since that time, essentially because Congress has moved to try to get more staff in place.

But I notice that the President's 1994 budget proposes to cut 219 staff from the Department. And I'm just wondering, doesn't that kind of cut against what we're trying to do here in terms of catching up to these problems and applying the horsepower that we need? Should we be making further cuts?

Mr. DESEVE. I think Secretary Cisneros was up last week testifying on the multifamily problem and indicated that resources, including staff resources, were a very high priority of his. I believe that discussions both in the 1994 budget and the 1995 budget are ongoing. He's meeting with Secretary Panetta later in the week to talk about issues very much like this.

The whole answer isn't putting in more bodies and throwing more bodies at the problem.

The CHAIRMAN. I understand.

Mr. DESEVE. But certainly, as the IG has identified, having the right people in the right place to provide the oversight that's necessary to make sure that we don't waste enormous amounts of money for the want of a few people who can do things properly.

The CHAIRMAN. Let me just also say that 3 years ago, in order to get at some of these problems, we formed a special investigating subcommittee on this committee to look at management problems at HUD.

We had, under the direction of Senator Graham of Florida and the Ranking Minority Member with Senator Mack, they held a number of hearings. They really scrubbed this problem down quite thoroughly.

One of the findings that came out after they had heard from several witnesses was that there had been a kind of talent drain or a brain drain out of HUD over the years, partly because its mission was being de-emphasized within the administrations at that time.

As I understand it, there are a number of the most senior and skilled officials now in the Department who are approaching retirement age and may or may not stay on. I'm concerned about the question of who's coming up and whether we're training people properly and whether we're really building a core of professional-

ism, professionals in a kind of elite operation here that not only allows us to attract the best people, but to upgrade their skills over time and to have them on deck ready to go when important senior positions become available. How are we doing in the staffing and training area, would you say?

Mr. DESEVE. I don't think we're doing very well right now. We spent a good deal of Saturday with the Secretary talking about his 1995 budget priorities. He had three major priorities as far as administration is concerned.

We've talked about one of them, which was data systems. The second is training. The Secretary has commissioned as part of the Reinventing HUD process a training report from internal people and staff, the HUD Reinventing Task Force, and people in the Office of Administration, to give him the kind of training that's necessary: very substantive, job-related training to enable people to take over higher-level jobs as we go.

I have a great expectation that you're going to see significant increases in the training budget requests from HUD over the next year or so.

The CHAIRMAN. I'm going to give you also some additional questions for the record that I think it's important that you respond to. I think also in your case, you bring the kind of professional background and experience that gives me and I think the committee, a high degree of confidence that you're the right match for the job.

This is what we had in mind when we set out the CFO position in statute. We couldn't see you physically, and it's nice to be able to see you physically today sitting at this table because, in a sense, it closes the loop.

In other words, what we had in mind in doing that was the need to find a seasoned talent who could come in and working with a competent and tough-minded Inspector General, get these problems identified and sorted out and corrected.

There are problems in the Defense Department and there are problems in the energy area with nuclear waste clean-up and other things. But in the HUD area because of the exposures out there and the lax practices over a period of time, including outright fraud, this is a big job. There's a lot of money on the table that could end up being a big cost to taxpayers if this isn't done as well as it possibly can be done.

So you're arriving not a minute too soon to do this. I will have you back, once you've got the chance to really get all this in your gunsights, to tell us where we are. I don't want you to hold anything back. I want it all laid out from A to Z. You've given me that pledge today, both of you, and I appreciate that.

Let me conclude the hearing at this point and thank you very much for your testimony and your willingness to serve and we'll move ahead just as promptly as we get responses to these questions in writing.

Mr. DESEVE. Thank you, Mr. Chairman.

Ms. GAFFNEY. Thank you.

The CHAIRMAN. Thank you both.

The committee stands in recess.

[Whereupon, at 11:27 a.m., the committee was recessed.]

[Prepared statements, response to written questions and biographical sketches of nominees follow:]

PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, today the Committee is considering three nominations. Mr. G. Edward DeSeve is being nominated to be the Chief Financial Officer of the Department of Housing and Urban Development. Ms. Susan Gaffney is being nominated to be Inspector General, of that same Department. Mr. Richard Carnell is being nominated to be Assistant Secretary of the Treasury for Financial Institutions.

The position of Assistant Secretary for Financial Institutions will be of critical importance in the new Administration. Congress and this Administration must work together to make fundamental policy decisions about the future of our financial services industry. These decisions have long been delayed with detrimental results. As a recent series of articles in the Wall Street Journal has pointed out, the banking industry has seen a steady decline in its role in our economy with the result being higher risks for depositors and the insurance funds. These concerns must be addressed, and the Assistant Secretary of the Treasury will be a key player in formulating the solutions.

Mr. Chairman, the President chose well in selecting Rick Carnell for this position. Rick is a graduate of Yale University and Harvard Law School. He has a distinguished career in banking law, that includes experience in both private law firms and the legal division of the Federal Reserve Board. Most recently, of course, Rick served as senior counsel to the Banking Committee. In this position Rick proved to be an invaluable resource for the entire Committee, and since joining the staff he played a major role in every significant banking bill considered by the Committee. His long hours and dedication to the job are legendary, and Rick's extensive knowledge of the banking laws are an asset that the Committee will find hard to replace.

Mr. Chairman, I am looking forward to hearing Mr. Carnell's statement and, following this hearing, hope that we can move to speedy Senate consideration of this nomination.

PREPARED STATEMENT OF SENATOR HARRIS WOFFORD

Mr. Chairman, I would like to be here today but I am traveling in Pennsylvania—which is home to today's nominee, my friend and colleague, Ed DeSeve.

Our nation's cities are in a crisis. Unemployment, crumbling infrastructure, lack of housing, drugs, and violence are plaguing cities and are threatening the livelihood of urban families. But a strong and focused Department of Housing and Urban Development, steered by the able Secretary Cisneros, can arm citizens and communities with the tools to reclaim their neighborhoods.

Earlier this year I met with a group of homeless children from Philadelphia who told me their stories of living with the uncertainty and instability of homelessness as well as the violence and despair in the inner city. Today I would like to voice their concerns to Ed DeSeve, Secretary Cisneros, and Nelson Diaz, another Philadelphian tapped for a key HUD position. I feel more hopeful knowing that their capable hands are steering the agency which could have such a powerful impact on the lives and futures of these children.

The last decade was marked by inefficiency, inaction and, in HUD's case, outright fraud in Federal agencies. By bringing his hands-on Pennsylvania experience to Washington, Edward DeSeve will help Secretary Cisneros turn HUD around and do its job: revitalizing our cities and bringing the dream of home ownership to Americans.

Ed DeSeve's expertise in public finance will be an invaluable asset, especially at HUD. I know he's up to the challenge. When he served as Finance Director of the city of Philadelphia, the city eliminated its deficit and posted the largest surplus in its history. His acumen and expertise helped numerous states, cities, and government institutions get their finances on track.

And I know from working with him in Harrisburg as part of Governor Casey's team that he is dedicated to the idea that government must give every penny of value for the taxpayers' hard-earned dollar. In these tough times, people are demanding that government be effective and efficient. Ed DeSeve will work tirelessly with Secretary Cisneros to ensure that the Department of Housing and Urban Development is a force for revitalizing American cities and empowering American families.

STATEMENT OF RICHARD S. CARNELL

NOMINATED TO BE ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS
DEPARTMENT OF THE TREASURY

JULY 12, 1993

Mr. Chairman, distinguished Members of the Committee, I am pleased and honored to appear before you today—in a familiar room, among many old friends, but in a new capacity—as the President's nominee to be Assistant Secretary of the Treasury for Financial Institutions. I thank you, Mr. Chairman, for your courtesy in scheduling this hearing so promptly.

I am proud to have served this Committee during some of the most eventful years in the modern history of U.S. financial regulation—years in which the Committee and the Congress, in a bi-partisan spirit, confronted and helped correct some grave weaknesses in our financial system.

Among the accomplishments of those years, I would particularly note the progress made toward cleaning up the thrift industry, strengthening the banking industry, and recapitalizing the Bank Insurance Fund. Although the job isn't finished, the progress is real: the taxpayers are safer, banks and thrifts are sounder, and the financial system is more resilient. Because banks and thrifts have strengthened their standing with depositors and investors, they are better positioned to fuel sustainable economic growth and prosperity.

If confirmed, I would work to keep depository institutions safe and sound; to reduce the total cost of regulation; and to remove impediments that prevent credit from flowing to creditworthy borrowers, whether those impediments involve outdated rules, inefficient practices, or invidious discrimination. I want to see our financial institutions, large and small, be the strongest in the world and see that strength flow to all sectors of American life.

I would look forward to working closely and constructively with this Committee and its Members, both Democrats and Republicans. I would hope we could continue the same bi-partisan spirit in which the Committee and the Senate supported funding to finish the thrift clean-up.

I would also look forward to continuing to work with the exceptionally able Treasury team led by Secretary Bentsen, Deputy Secretary Altman, and Under Secretaries Newman and Summers.

I would be pleased to answer any questions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM RICHARD CARNELL

Q.1. You have witnessed first-hand the problems of the thrift and banking industries. In February 1989, when then Treasury Secretary Brady testified on the Bush Administration's thrift proposal, he said, "Never again should we allow a Federal insurance fund that protects depositors to become insolvent." What additional changes, and what additional safeguards, if any, do you believe should be made to protect our deposit insurance system in the future?

A.1. Congress and the Federal depository institution regulators have already taken important steps to protect the Federal deposit insurance funds. If confirmed, I will in the course of my duties seek to review our current system of safety-and-soundness regulation with an eye to making the system more efficient and effective.

The Treasury Department and the regulators are taking or will take a variety of initiatives to improve the regulatory system and depository institutions' profitability and soundness, such as by working to eliminate unproductive rules, procedures, and paperwork, improve disclosure, control interest-rate risk, avoid misuse of financial derivatives, limit the insurance funds' loss exposure, and strengthen inter-agency coordination.

Q.2. What additional steps, if any, do you believe should be taken to modernize our supervisory/regulatory apparatus?

A.2. Depository institution regulation and depository institutions themselves have evolved in ways that blur the old distinctions among institutions and increase the overlap among the four agencies responsible for supervising FDIC-insured institutions. For example, thrift regulation has become more like bank regulation, and many thrifts have taken on bank-like names and activities, even as banks have increased their involvement in residential mortgage lending. Yet the Federal regulatory structure has not received systematic, sustained attention for many years.

Under Secretary Newman has agreed to submit recommendations to you on how to modernize the regulatory structure. I look forward to working with him in that effort.

Q.3. What is your response to those concerns raised by bankers and others that the industry is over-regulated?

A.3. We need to strike a better balance between the costs and benefits of regulation.

I do not believe the current regulatory system strikes an optimal balance. If confirmed, I intend to work to reduce the total net costs of regulation.

I would emphasize the importance of considering the total costs of regulation, including the premiums necessitated by deposit insurance losses, as well as any benefits of regulation. Focusing exclusively on reducing out-of-pocket compliance costs would prove short-sighted and self-defeating if it led to increased insurance losses that dwarfed the savings in compliance costs.

The President's Credit Availability Program, announced March 10, 1993, and now being implemented, takes important steps toward reducing-regulatory costs while maintaining safety and

soundness. The Treasury and the regulators are also reviewing such programs as the Community Reinvestment Act to see if they can be made more effective and more efficient. We will continue to scrutinize regulation to see what additional changes are desirable.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM EDWARD DeSEVE

Q.1. *Role of Chief Financial Officer*—As part of the HUD Reform Act of 1989, the position of Chief Financial Officer was created to ensure accountability and assign sole responsibility to one individual for the Department's financial management and controls.

(a) What role will the Chief Financial Officer play as part of the Administration's effort to "Reinvent HUD"?

(b) How will this be distinct from the duties of the Assistant Secretary for Administration?

(c) Will the Department engage in a major restructuring on the Department's organizational structure in order to improve financial management and controls?

(d) What will be your major priorities?

A.1.(a) As part of the Department's efforts to "Reinvent HUD," the Secretary will look to the CFO to exercise strong leadership in addressing existing systemic problems in the data systems and internal controls of the Department. The resolution of these deficiencies is critical to improving the financial management of HUD's programs and the delivery of services to our customers. The CFO will also work with the reinvention teams and the NPR to provide leadership in management and performance measurement.

A.1.(b) The Assistant Secretary for Administration has been tasked by the Secretary to "instill management excellence" throughout the Department. A Management Excellence Team has been established and is focusing on the development of the Department's capacity to redesign existing business processes, management systems and organizational structures. The team will develop process change proposals that will produce results that are consistent with the mission of the Department and the values established by the Secretary. As the Department proceeds with these reinvention initiatives to introduce flexibility and accountability for results, there is an obvious need for the CFO and the Assistant Secretary for Administration to coordinate their efforts, particularly as they relate to budget resource allocation and performance measures.

A.1.(c) Recently the Secretary approved recommendations made by the Deputy Secretary for strengthening the effectiveness of the CFO structure. The CFO now has primary responsibility for the financial systems integration plan. The CFO will also be responsible for the financial systems portion of the systems development budget. This will enable the CFO to manage financial systems budget activities, including allocating funds to projects and overseeing progress of approved systems.

The Secretary also approved the transfer of the Office of Finance and Accounting, presently within the Office of Administration, to the CFO. This will provide the CFO with stronger control over the accounting and financial reporting function for the Department. This transfer has been approved by the Office of Management and

Budget. The Secretary has named the CFO to participate as a member of the Budget Committee along with the Chief of Staff, the Assistant Secretary for Administration and the Assistant Secretary for Policy Development and Research.

A.1.(d) As stated in my testimony of July 12, my four priorities are:

- to integrate the internal control process at HUD into an overall management plan for the Department;
- to revise the Department's financial management systems integration plan to reflect the business plans of program areas;
- to assist in the creation and utilization of a performance measurement and resource allocation system; and
- to monitor and assist with addressing underlying causes of material weaknesses and significant audit findings.

Q.2. *Financial Systems*—The Department has been criticized because it lacks internal control and financial management systems. The Inspector General reports that HUD's current Management Control System has been cited with 117 material weaknesses over its ten year life. Furthermore, HUD has been unable to report compliance with the Federal Managers' Financial Integrity Act since 1983.

Can you describe to the Committee the steps you will take, if confirmed as Chief Financial Officer, to correct the deficiencies that exist in HUD's Management Control Program?

A.2. The Federal Managers' Integrity Act (FMFIA) of 1982 requires agencies to establish and maintain internal control and financial management systems and report any material control weaknesses to the President and Congress. Further, HUD was one of three agencies (Agriculture and Education are the others) to report that reasonable assurance could not be provided to meet FMFIA's objectives for internal control and financial management systems. Additionally, four agencies (Commerce, Energy, Treasury, and NASA) reported compliance with internal controls with the exception of the material weaknesses described in their reports.

As noted in various reports, HUD's internal control environment is one of its major systemic problems. Currently, HUD's Management Control Program is too "process" oriented, taking up scarce staff time to produce little or no substantive benefit to Departmental management. FMFIA implementation efforts have been pursued as a separate and distinct process rather than as an integrated part of sound program management. HUD's management structure has presented a problem in assigning responsibility and providing accountability for achieving FMFIA objectives. There has been insufficient effort placed on evaluating the design of control systems, and determining whether sufficient resources are available to effectively implement established or planned controls. It is believed that much of the existing management control structure of HUD needs to be redesigned to better address risks within available resources.

In the near term, HUD's Management Control Program will be focused on a redesign of HUD's control structure rather than on the completion of scheduled evaluations of the existing structure, which would only result in the further reporting of known problems

which cannot be corrected without unlikely additional resources or a redesign of the control structure. We will focus on the pursuit of the goal of reinventing HUD's Management Control Program in a manner which:

- Benefits rather than encumbers HUD management;
- Makes sense for HUD's organizational/operating structure;
- Serves as a model for the Federal government.

Q.3. Data Systems—The HUD Reform Act of 1989 created the position of Chief Financial Officer as a means of improving financial management and accountability. One of the duties of this position is facilitating data systems integration. HUD currently has almost 200 separate, poorly integrated, duplicative and generally unreliable data systems which prevent effective program management and leave the agency open to fraud and abuse.

What actions will you take, if confirmed, to rectify this problem? Do you believe the Department has the resources necessary to more efficiently integrate its data systems in order to prevent fraud and abuse?

A.3. Secretary Cisneros has identified the need to improve and integrate data systems as one of the highest priorities for the Department. If confirmed, I will work closely with the Deputy Secretary on the newly formed Systems Steering Committee, which provides policy direction and oversight of the systems integration effort, and will chair the Systems Working Group, which provides the technical input to the Steering Committee. The specific role of the Chief Financial Officer is to ensure that all program systems are being developed according to Departmental integration policies and standards. The CFO controls the budget for systems integration. This allows the Office to coordinate the development of program project plans in order to ensure that: timeframes and deadlines are being met; budget resources are properly directed; and existing project schedules can accommodate new systems integration projects.

The Department's systems integration plan is being redesigned to increase program ownership and responsibility, with the CFO ensuring that the overall integration effort meets the requirements set forth by the Office of Management and Budget (OMB) in the revised Circular A-127. To this end, the basic blueprint for the Department's integration effort is being put in place with four major projects already underway. The Department has redesigned its ongoing Control Files Subsystem/Tenant Rental Assistance Certification System (CFS/TRACS) project to improve the budgeting and disbursement activities for Section 8 programs, by creating separate but integrated projects for Public and Indian Housing (PIH) and Housing. Detailed project plans have been developed for these projects and data collected to date is already being used to enhance budget projections. The CFO's Office will have specific responsibility for the design and implementation of the Department's Agency Accounting System, with plans being developed for bringing the administrative accounting portion on-line for use in Fiscal Year 1994. Finally, the Federal Housing Authority (FHA)-Housing Program is in the process of developing a plan for a Mortgage Insurance System to meet current and future needs.

Q.4. HUD Staffing—The Inspector General has identified staffing as one of the most pressing problems of HUD. HUD has staffing levels between 14,700 and 16,000 from 1970 to 1979. Between 1981 and 1986, HUD's staffing levels were reduced from a high of 16,800 to 12,000—a 30 percent reduction. In recent years, staffing levels have increased—largely because of Congressional action. The President's FY 1994 budget proposes to cut 219 staff from the Department.

(a) How do you reconcile this decision with the concerns of the Inspector General and most observers of the Department?

(b) What impact will such a cut have on your ability to reform the agency's financial control systems?

(c) What steps will you take to improve staff efficiency to make up for these cuts?

A.4. The budget discussions for FY 95 have begun between the Office of Management and Budget and various Executive Departments and agencies. The Secretary has directed the Assistant Secretary for Administration to develop a resource allocation strategy as part of this process.

Based on a continuing analysis of staff and other resource requirements, the Department is committed to seeking the resources necessary to perform its mission.

The resources for systems integration have been specifically earmarked in the Department's Working Capital Fund in both the FY 94 and 95 budget submissions.

Q.5. HUD Staffing-Training—Three years ago, as part of a special subcommittee formed by the Banking Committee to investigate the management problems at HUD, several witnesses testified that HUD experienced a "brain drain" of some of its most talented employees during the Reagan and Bush years. Furthermore, a significant number of the Department's most senior and skilled career officials are eligible for retirement in the next few years. Yet, HUD has devoted few resources to training new employees.

- How will you rebuild the staff capacity of the Department?
- What efforts will you take to recruit and retain qualified staff and train staff to properly perform the agency's financial management duties?

A.5. Improvements in the Department's systems and programs will provide the focus of major activity for the new administration. While these issues must be addressed to improve and enhance the adequacy of Departmental performance, I am concerned with strengthening the financial management capacity within the Department. The capacity of our resources will affect the Department's ability to perform effectively and efficiently. Therefore, I feel it is important to link specific financial management improvements with training and capacity building to support those improvements.

Secretary Cisneros has established training as a major priority of the Department. The recent establishment of a Training Initiatives Task Force, co-chaired by the local Union President and the Deputy Director of the Office of Personnel, is charged with the responsibility to develop a strategy for reshaping HUD's training programs. As part of the Task Force charter, the Secretary has issued a challenge to broaden the definition of "training" to include train-

ing those who help provide HUD programs and services—our contractors and other intermediaries. The Task Force will also examine opportunities to work with other Government agencies having similar missions (VA, RTC, HHS, Agriculture, and others) to provide training to employees and intermediaries in a concerted manner. The Task Force will formulate a strategy to make training a priority and an integral part of the reinvention of HUD. I will assist the Task Force by integrating financial management training activities into the framework which is being developed as part of the reinvention initiative. The product of this effort will be one of the cornerstones in rebuilding and maintaining the staff capacity of the Department.

I will also support Government-wide activities designed to develop training and improve levels of competency of HUD staff. One such undertaking for the financial management training is the Federal Credit Management Training Institute. The Institute was established by the Federal Credit Policy Working Group (chaired by OMB) to address disparate training opportunities and skill levels among Federal credit management personnel.

Another critical component of training is the accurate assessment of training needs by all HUD organizational components—Headquarters, Regional and Field Offices. It is important to keep a broad focus on training needs of the organization which is participatory and flexible. The development of a process which is an interactive, fair, and open means to provide input between the various levels of the organization is necessary if progress is to be made toward the goal of enhanced training capacity. As part of the needs assessment for financial management activities, a nationwide survey has been conducted of the Regional Accounting Directors for the Department. This survey provided input from the HUD Field component which will assist us in designing and defining future training initiatives to support financial management duties.

Q.6. Consolidation—In a recent report, the HUD Inspector General noted that “HUD is one of the largest financial institutions in the United States. At the same time, it has a mandate to provide decent, safe and sanitary housing for lower-income families. With insured loans and guarantees exceeding three-quarters of a trillion dollars, with housing subsidies serving over 4 million families, and with grants to virtually every state and city in the country, HUD’s programs are both diverse and far-reaching.”

(a) Given HUD’s diverse mission and the problems that have been identified with its management systems, is HUD spread too thin?

(b) Is there a need to consolidate or simplify its programs or management functions?

(c) What can the Department do to better manage its programs and assets given the tightness of funding?

A.6.(a) Since the Department’s inception in the 1960’s the basic mission has been to provide people safe, decent and sanitary housing. The Department became a financial institution to accomplish its housing mission. Specifically, HUD’s programs entail \$379 billion of FHA Insurance in Force; \$14.1 billion in property and other assets; \$422 billion of GNMA Mortgage-Backed Securities; \$100 bil-

lion in long-term housing subsidy commitments; billions of dollars of outstanding grant commitments; and an average \$25 billion in annual budget authority. I believe this basic mission is key to the Department and that remaining a financial institution is intrinsically necessary. It is true there are numerous management, program and resource issues, as delineated in the recent "Inspector General's Semiannual Report to Congress," that need to be resolved in both the short- and long-term. We already know we need to change the fundamental way the Department does business and, as has been stated by myself and other Departmental officials, HUD needs to focus "more on steering and less on rowing." This is why the Reinventing HUD initiative is taking a global look at all factors that affect HUD's capacity, including management, management systems, programs, organization and staffing.

A.6.(b) Yes. Over the years the number of HUD's programs and the management structures for delivering housing to the public have grown to be unnecessarily diverse and duplicative. Red tape and bureaucracy abound. We need to study HUD's organization to identify and pursue areas for operational efficiencies, consolidating functions and streamlining accounting processes.

A.6.(c) As I mentioned earlier, we hope to consolidate duplicative programs and eliminate unsuccessful programs. This should free resources to better manage existing programs which have shown the most promise, but sometimes with identified high risk, and new programs. We are also moving toward public-private partnerships which will assist in reducing unnecessary bureaucracy and red tape. In addition, one of the major outputs of the Reinvent HUD initiative will be a strategic plan which will provide the key to resolving many of HUD's resource management issues. It will be the basis for organizing the workforce, allocating staffing, and developing results-oriented performance measures to enable the Department to develop an effective management system to evaluate program and organization effectiveness and individual performance.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM SUSAN GAFFNEY

Q.1. What are your priorities for the position of Inspector General? What is your view of the role of the IG at HUD?

A.1. In my judgment, the IG at HUD should be an agent for bringing about positive change in the integrity, efficiency, and effectiveness of the Department's operations. To do that, the IG needs to focus consistently on the areas of greatest vulnerability; act aggressively to identify actual and potential fraud, waste, and opportunities for operational improvement; provide timely, objective, and independent reports of IG findings to the Congress and the Secretary; and establish relationships with the Congress and the Department that foster collaboration in designing and implementing real solutions to problems identified by the IG, the General Accounting Office, and others.

If confirmed as IG, my top priority would be ensuring relationships with the Congress, the Secretary, and HUD senior management that are grounded in respect for the credibility and responsiveness of IG work. My other priorities would include:

- Ensuring that IG staff are well equipped to carry out their jobs, and that they operate in an atmosphere of teamwork and respect among IG offices, as well as among individual IG staff persons.
- Expanding IG involvement in the formulation of legislation, rules, and regulations affecting HUD—in order to ensure that the IG's views on such matters as the adequacy of internal controls, enforceability, and costs vs. benefits are considered.
- Ensuring that IG audit work is focused on matters that significantly effect the integrity, efficiency, and effectiveness of the Department, rather than on assessing the Department's compliance with all the rules and regulations on the books.
- Making the audit recommendation process more effective in bringing about real change, by fostering a constructive and collaborative effort on the part of IG and Department staff in the formulation of those recommendations.
- Working with the Chief Financial Officer to implement an effective system of internal controls in HUD.
- Enhancing IG credibility throughout the Department by devoting increased attention to the handling of employee complaints, particularly those received through the IG hotline.

Q.2. In a recent report, the HUD Inspector General noted that "HUD is one of the largest financial institutions in the United States. At the same time, it has a mandate to provide decent safe and sanitary housing for lower-income families. With insured loans and guarantees exceeding three-quarters of a trillion dollars, with housing subsidies serving over 4 million families, and with grants to virtually every State and city in the country, HUD's programs are both diverse and far-reaching."

- Given HUD's diverse mission and the problems that have been identified with its management systems, is HUD spread too thin?
- Is there a need to consolidate or simplify its programs?
- What can the Department do to better manage its programs and assets given the tightness of funding?

A.2. It seems to me clear that HUD is currently spread too thin. As HUD staffing has decreased over the past ten years, the number of separate HUD programs—with their attendant rules and regulations—has increased to about 180. The results of this situation have been extensively documented by the IG's office, the General Accounting Office, and others. For example, in the multi-family loan program, one staff person can be responsible for servicing as many as 108 projects; in the Section 8 program, monitoring is so weak that HUD can't be sure it's paying the right people the right amounts for the right purposes; and Ginnie Mae is charged with managing \$422 billion in mortgaged-backed securities with a total staff of 68.

The nexus between HUD's ability to meet its programmatic mission and the state of its management systems was made abundantly clear in 1992, when approximately 558 regional and field staff were diverted to assist in implementing CFS/TRACS, a new system designed to meet critical Section 8 information needs. In Price Waterhouse's audit of HUD's 1992 consolidated financial statements, this diversion of staff to meet a critical management need—without an increase in overall HUD staffing—is offered as a

principal explanation for a documented decline in effective monitoring of HUD programs.

I believe that consolidation and simplification of HUD programs are essential—to sharpen the objectives of the programs, improve HUD's oversight capabilities, reduce administrative costs overall, and increase the viability of the programs from the perspective of HUD's clients. For example, HUD's Office of Inspector General has noted that the substantial effort currently expended on award and administration of many separate but similar Homeless Programs could be significantly reduced by combining and simplifying those programs. Similarly, the Office of Inspector General has indicated that the Community Development Block Grant Program would benefit from simplification to enable greater local decision making, increased technical assistance, and improved overall performance accountability.

Given the tightness of funding and resultant constraints on staffing, I believe that better management of HUD programs will require consolidation and simplification of HUD programs; consolidation and simplification of HUD's organizational structure; a meaningful program for identifying internal control weaknesses; a resource allocation system that is deliberately geared to addressing areas of greatest risk; and information systems that enable a targeted, risk-based approach to HUD monitoring.

Q.3. Secretary Cisneros has outlined his plan for "Reinventing HUD" and improving the management of the Department and the delivery of its services. Do you believe the Secretary is focussing on the appropriate goals and what advice would you give him for improving the management and administration of HUD?

A.3. The Secretary's "Reinventing HUD" initiative has two major thrusts: policy and management. In the policy area, the initial focus was on sharply defining HUD's programmatic mission, objectives, and values. Work is now underway to review HUD programs in light of that definition, and to identify legislative and regulatory impediments to effective program delivery.

On the management side, the Secretary is focussing on correction of the three principal systemic weaknesses identified by the Office of Inspector General: ineffective data systems, inadequate resource management; and lack of a meaningful management control program. Responsibility for devising and implementing corrective action plans has been assigned to the Deputy Secretary; and, as the first agenda item for each of his weekly principal staff meetings, the Secretary requires a report on the progress being made in each of the three areas.

I believe that the Secretary's goals for and approach to reinventing HUD are appropriate. My advice to the Secretary would be to stay the course. This is particularly important on the management side, where needed actions are often mundane, long-term, and susceptible to bureaucratic resistance. In my judgment, the Secretary's continuing personal attention to these issues will be essential to effect real corrective action. Continuing oversight by your Committee as well as HUD's other oversight committees will also be essential.

Q.4. At a recent Banking Committee hearing on HUD management deficiencies the IG's office highlighted the ten most pressing problems facing the Department. In your view, what are the top three problems that should be addressed to minimize financial losses to the American taxpayers?

A.4. Of the ten major problems identified by the HUD Office of Inspector General, the following three are systemic: ineffective data systems, inadequate resource management, and lack of a meaningful management control program. In my view, these represent the Department's most pressing problems, since they underlie all of the program-specific problems. Correction of the systemic problems is an essential condition for bringing about meaningful improvements in the management of HUD programs.

Q.5. The most recent audit of the FHA, completed in April, indicated that the volume of bad loans was more than double the Department's earlier estimates. It has been reported that the losses on HUD's multifamily insurance programs could total as much as \$11.9 billion as hundreds of apartment building owners default on their government-insured mortgages.

- What are your assessments of the projected losses to HUD?
- How much will problems in the multifamily insurance programs end up costing the taxpayer?
- What steps do you believe should be taken to reduce future losses to the taxpayer?

A.5. The increase of \$6.4 billion in the loan loss reserve resulted from reconstruction of the financial data for approximately 13 percent of FHA's insured multifamily loans, including the majority of FHA's large and troubled loans. I believe that the total reserve of \$11.9 billion therefore represents a creditable assessment of potential losses at a certain point in time, i.e., as of the end of FY 1992.

However, as Price Waterhouse points out in their audit of FHA's 1992 financial statements, the 13 percent sample was a one-time project to assess potential losses. It did not correct, nor has FHA otherwise corrected, the systemic weaknesses affecting FHA's management of its multifamily portfolio. These systemic weaknesses include the lack of complete and accurate financial and operational information, and the lack of a systemic, internal process for assessing and ranking loans according to their credit risk. Under these circumstances, it is impossible accurately to project losses on a current basis; and the entire \$43.6 billion portfolio is subject to being considered "at risk."

I agree with HUD Office of Inspector General assessments that the following principal steps must be taken to reduce future losses to the taxpayer: installation of data systems that provide reliable information for management purposes, notably an early warning capability; resolution of the FHA resources problem, either through additional staffing or program restructuring as well as enhanced staff capability; and resolution of FHA's defaulted loan workload. The rapid growth in the defaulted loan workload compounds FHA staffing shortages by diverting substantial attention from the need to prevent future losses through effective loan servicing.

Q.6. Most of the FHA Multifamily loans that are winding up in default were reviewed in advance before being guaranteed by HUD.

In reviewing the loans, HUD was supposed to deny insurance on those deemed exceedingly risky. What changes would you recommend in HUD's loan review and underwriting process to protect the Department against future defaults?

A.6. I am aware that the HUD Office of Inspector General has been concerned for some time about the manner in which multifamily loans are processed. This was especially true with the co-insurance program. Notably, many techniques have been devised and accepted to allow paper equity rather than cash equity. Consequently, the owners have little real risk in the projects, and some remain in the projects only as long as cash flow or tax benefits are present. Changes requiring minimum cash equity investment or risk sharing would appear to be appropriate remedies for this situation. The Assistant Secretary for Housing is currently studying such alternative approaches, and IG staff are participating in this review. If confirmed, I will work with the IG staff to identify additional ways to strengthen FHA's loan review/underwriting process without impeding FHA's ability to meet its programmatic mission.

Q.7. Three years ago, as part of a special subcommittee formed by the Banking Committee to investigate the management problems at HUD, several witnesses testified that HUD experienced a "brain drain" of some of its most talented employees during the Reagan and Bush years. Furthermore, a significant number of the Department's most senior and skilled officials are eligible for retirement in the next few years. Yet, HUD has devoted few resources to training newer employees. What are your recommendations to rebuild the staff capacity of the Department?

A.7. In my judgment, the process of rebuilding HUD's staff capacity starts with expert and committed leadership at the top, followed by: a clear articulation of HUD's mission, objectives, and values; a concerted effort to bring HUD's programs in line with its mission, objectives and values; and a commitment to provide HUD staff with the expertise, information, performance standards and other support they need to effectively administer the programs.

In my judgment, Secretary Cisneros has assembled a top management team with exceptional qualifications and experience in the fields of housing and community development. Further, as discussed above, the Secretary's "Reinventing HUD" initiative has focused on defining HUD's mission, objectives, and values; and work is now underway to bring HUD programs into line with that definition.

The Secretary has also assembled a Department-wide task force to identify, on a priority basis, training needs and ways to meet those needs. While this initiative is clearly necessary, it is important to recognize that staff capability also needs to be enhanced by allocating resources appropriately, providing staff with adequate, reliable, and timely program performance data, and specifying program performance goals for staff to use in carrying out their oversight and monitoring responsibilities. To a large extent, bringing about these conditions will require the Department's correcting the three systemic weaknesses identified by the IG's office.

Q.8. The current IG's office has recommended that the entire CDBG program be reported as a "material weakness."

- What measures could the Department realistically take, given limited resources, to improve the CDBG program?
- How can we be assured that efforts to step up monitoring don't result in hindering the flexibility of the program?

A.8. IG audits have extensively documented issues concerning benefits being derived from the CDBG program, ineligible costs incurred under the program, and lack of effective program monitoring by HUD staff. Given the continuing nature of the IG's findings, legislative changes to clarify the purpose and nature of this program would appear appropriate. However, short of legislative changes that would provide greater flexibility to State and local governments in carrying out the program, HUD should make every effort to simplify its program regulations—the purpose being to make the regulations both readily understandable and enforceable.

Steps to make HUD's monitoring of the simplified regulations more effective include: installation of data systems that provide HUD staff with timely and accurate information on the expenditure of program funds, thereby enabling a risk-based approach to monitoring; establishment of clear and consistent program performance goals and measures; and greater reliance on grantees to carry out ongoing program planning, reporting, and assessment functions. As such changes are made, the IG's office would continue making program assessments to assure program flexibility.

Q.9. What is your assessment of the previous IG's efforts and his relationship with the Department and the Congress?

A.9. Along with millions of other television viewers, I watched the 1989 Congressional hearings on the "HUD scandals." I had the impression of an IG's office that knew what the Department's problems were, but somehow wasn't getting the message across to parties outside HUD. In contrast, I note that the IG's latest semi-annual reports to the Congress are models of focus and solid, forthright reporting. Indeed, it seems to me that the IG's continuing focus on HUD's top ten problems has been remarkably successful in establishing an overall management agenda for the Department.

From my observation, the IG's office has further fostered an effective relationship with the Congress by continuing dialogue with staff, timely sharing of IG work, and frequent testimony at Congressional hearings.

In contrast, the relationship between the IG's office and the permanent staff in the Department appears to be strained and at times adversarial. I would speculate that this situation represents the lingering effects of the HUD scandals, as well as efforts to cleanse HUD's reputation. While I do not expect a fond relationship between the IG's office and Departmental staff, I do not believe that the current atmosphere fosters meaningful change as the result of IG work. The priorities I have outlined above are designed in part to address this situation.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: CARNELL, RICHARD SCOTT

Position to which nominated: Assistant Secretary (Financial Institutions)
Department of the Treasury

Date of nomination: June 29, 1993

Date of birth: June 20, 1953

Place of birth: Bronxville, New York

Marital status: Single

Children: None

Education:

<i>Institution</i>	<i>Dates attended</i>	<i>Degree received</i>	<i>Date of degree</i>
Harvard Law School Cambridge, Massachusetts	1975-78	J.D.	1982
Albert-Ludwigs-Universität Freiburg-im-Breisgau, Germany	1974	N/A	N/A
Yale University New Haven, Connecticut	1971-75	B.A.	1975
P.K. Yonge Laboratory School Gainesville, Florida	1958-71	Diploma	1971

Honors and awards:

B.A., magna cum laude, Yale University
Florida Regents' scholar; National Merit scholar

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

<i>Organization</i>	<i>Office held</i>	<i>Dates</i>
State Bar of California	None	1982-present
St. Columba's Episcopal Church Washington, D.C.	None	1985-present
Radix Magazine, Inc. Berkeley, California (nonprofit literary magazine)	Member and secretary, board of directors	1983-84
Sierra Club	None	1983-85, 1991-92
American Bar Association	None	1983-86
Federal Bar Association	None	1988-89

During the past 10 years, I have at some time belonged to the following organizations, in which membership is incidental to receiving services or goods from the organization: American Youth Hostel Federation; California Automobile Association; Consumers Cooperative of Berkeley, California; Embarcadero YMCA, San Francisco, California; FRB Federal Credit Union; Harvard Law School Alumni Association; National Geographic Society; REI; Reserve Board Club (recreational organization of Federal Reserve Board employees; operated fitness center); Smithsonian Institution Resident Associate Program; Treasury Department Federal Credit Union; United States Senate Federal Credit Union.

During the past 10 years, I have also contributed money to the following organizations, many of which describe their contributors as "members": American Ireland Fund; American Red Cross; Amnesty International U.S.A.; Bread for the City; Bread for the World; CARE; Christian Legal Society; Compassion International; D.C. Habitat for Humanity; Episcopal Center for Children; English Language Institute--China; First Monday Night; Food for the Hungry; Food for the Poor; Greater Washington Education Telecommunications Association; Habitat for Humanity International; Hill Staffers for the Hungry and Homeless; Inter-Varsity Christian Fellowship; Mothers Against Drunk Driving; Martha's Table; Nature Conservancy; New Israel Fund; Prison Fellowship Ministries; Samaritan Ministry of Greater Washington; Second Harvest Food Bank Network; So Others Might Eat; Support Our

Aging Religious; University of Florida National Alumni Association; World Concern; World Wildlife Fund; Wycliffe Bible Translators; Yale Alumni Fund.

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1993-present	Deputy Assistant Secretary for Financial Institutions Policy, Department of the Treasury, Washington, D.C.
1987-93	Senior Counsel (1987-88, Counsel), Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C.
1984-87	Attorney, Board of Governors of the Federal Reserve System, Washington, D.C.
1981-84	Attorney (1981-82, Law Clerk), Broad, Schulz, Larson & Wineberg (1981-82, Broad, Khourie & Schulz), San Francisco, California
1980-81	Law Clerk, California Attorney General's Office, San Francisco, California
1980	Law Clerk, Kirkwood, Kaplan, Russin & Vecchi, San Francisco, California
1979-80	Research Assistant, primarily for Professor Wolfgang Hoffmann-Riem, Berkeley, California
1977	Law Clerk, Lillick, McHose & Charles, San Francisco, California
1976	Law Clerk, Shackleford, Farrior, Stallings & Evans, Tampa, Florida
1975	Assistant to the Director, Summer Term Planning Office, Yale University, New Haven, Connecticut

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

1993-present	Deputy Assistant Secretary for Financial Institutions Policy, Department of the Treasury
1987-93	Senior Counsel (1987-88, Counsel), Committee on Banking, Housing, and Urban Affairs, United States Senate
1992	Cluster Leader, Financial Institutions Policy, Clinton/Gore Transition
1984-87	Attorney, Board of Governors of the Federal Reserve System
1980-81	Law Clerk, California Attorney General's Office

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

"The Culture of Ad Hoc Discretion." In *Assessing Bank Reform*, edited by Robert E. Litan and George G. Kaufman. Washington: Brookings Institution, 1993. Forthcoming in July or August 1993. (Earlier version in *Financial Leadership Speaks* 2 (September-October 1992): 39-41.)

"A Partial Antidote to Perverse Incentives: The FDIC Improvement Act of 1991," *Annual Review of Banking Law* 12 (1993): 317-71. (Earlier version in *Rebuilding Public Confidence Through Financial Reform*, edited by Peter Dickson, 31-51. Columbus: Ohio State College of Business, 1992.)

"Prompt Corrective Action Under the FDIC Improvement Act of 1991." In *Litigating For and Against the FDIC and the RTC, 1992*, 27-82. New York: Practising Law Institute, 1992. (Earlier version in *The FDIC Improvement Act of 1991: What Banks and Thrifts Need to Know Now*, 93-128. New York: Practising Law Institute, 1992.)

"Francis G. Newlands and the National Incorporation of the Railroads," *Nevada Historical Society Quarterly* 19, no. 1 (1976): 5-24.

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member, Democratic Party.

Clinton/Gore Campaign, 1992: research on financial services issues.

On November 3, 1992, helped get out the vote in Northern Virginia for Leslie Byrne and the Clinton/Gore ticket.

Answered Senate and House candidates' questions about financial services issues, 1988-92.

Political contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None.

Qualifications: State fully your qualifications to serve in the position to which you have been named.

I have worked on financial institutions issues for the past decade: in private law practice, representing a large national bank in commercial and other litigation; as an attorney for the Federal Reserve Board, analyzing proposals to acquire banks and bank holding companies and to engage in new nonbanking activities -- proposals involving a variety of legal, financial, managerial, competitive, and community reinvestment issues; and as senior counsel to this Committee, drafting legislation and advising the Chairman and Committee Members on a broad range of policy issues relating to depository institutions.

This experience has familiarized me with the legal framework governing depository institutions and their affiliates; the workings of the regulatory system and the legislative process; and the perspectives of banks, savings institutions, and credit unions (both large and small), their customers and competitors, and scholars and public-interest groups.

Future employment relationships:

1. *Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.*

No, in that I have been nominated for a position in the Department of the Treasury and I already work for that same Department.

2. *As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization*

No.

3. *Has anybody made you a commitment to a job after you leave government?*

No.

4. *Do you expect to serve the full term for which you have been appointed?*

Not applicable; the office has no fixed term.

Potential conflicts of interest:

1. *Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.*

None.

2. *List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.*

Although I believe the following pose no conflict, I list them in the interest of full disclosure:

I have \$40,000 of Massachusetts savings bank term life insurance (no cash value).

I have deposit accounts at the United States Senate Federal Credit Union, FRB Federal Credit Union, and Treasury Department Federal Credit Union. At no institution do my deposits exceed \$100,000.

I have credit cards issued by Chase Manhattan Bank, Universal Bank (AT&T), and Wells Fargo Bank, and charge cards issued by American Express and Nordstrom. I have lines of credit at Republic National Bank of New York and the United States Senate Federal Credit Union. My payments are current on all of the above.

While an attorney at Broad, Schulz, Larson & Wineberg (1982-84), I represented Security Pacific National Bank in commercial and other litigation.

3. *Describe any business relationship, dealing or financial transaction (other than taxpaying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.*

None.

4. *List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.*

None, except insofar as carrying out my duties for this Committee might be said to have such an effect.

5. *Explain how you will resolve any potential conflict of interest including any that may be disclosed by your responses to the above items.*

The Treasury Department's Ethics Officer has reviewed my circumstances, including the facts stated in response to the above questions, and concluded that I have no conflicts of interest. Should any such conflicts arise, I intend to resolve them by following the Ethics Officer's recommendations.

Civil, criminal and investigatory actions:

1. *Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.*

None to my knowledge, except that the Federal Government conducted background investigations (a) when the Federal Reserve Board hired me, and (b) in connection with this nomination.

2. *Give the full details of any proceeding, inquiry or investigation by any professional association in which you were the subject of the proceeding, inquiry or investigation.*

None.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: De Seve (LAST) Germain (FIRST) Edward (OTHER)

Position to which nominated: Chief Financial Officer, HUD Date of nomination: 6/22/93

Date of birth: 24 09 1945 (DAY) (MONTH) (YEAR) Place of birth: Albany New York

Marital status: Married Full name of spouse: Karren Ann Purdy De Seve

Name and ages of children: Germain, age 21

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	Vincentian Institute Albany, NY	1960-1964	N/A: High School	
	Cornell University NY School of Industrial & Labor Relations, Ithaca, NY	1964-67	B.S. Labor Econ.	1967
	University of Pennsylvania Wharton Graduate Division	1967-68, 70-71	MBA in Public Finance	1971

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

New York State Regents Scholarship

Adelphi Scholarship, Cornell University

Public Financial Fellowship, University of Pennsylvania

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
<u>Brodhead Protective Assn.</u>	<u>Chair</u>	<u>8/91 - present</u>
<u>21st Century League</u>		
<u>Schuykill Ctr for Environment</u>		
<u>Henryville Conservation Club</u>		
<u>Sunday Breakfast Club</u>		
<u>Philadelphia School District</u>		
<u>Surrogate Parent Program</u>		
<u>Germantown Cricket Club</u>		

(see attached sheet)

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

May 1968 VISTA: Assigned to work with credit unions in California; taught English

June 1969 Model Cities Program (Fresno, CA) Deputy Director: Supervised preparation of the First Model Year Application which received funding from the Department of Housing and Urban Development

August 1971 (Analyst)/Dec 1971 (Dept Director, Community Renewal Program, Philadelphia, PA) Responsible for all aspects of developing a financial management system for City pursuant to grant from HUD.

July 1972 City of Philadelphia: Asst. to Director of Finance: Staff assistant responsible for implementing installation of financial management system, functioning of Finance office and communication with other city departments.

Sept 1974: City of Philadelphia: Deputy Director of Finance for Budget
Supervised the execution of the operating and capital budgets for fiscal year 1974-75 and preparation of budgets for FY 1975-76.

April 1975: Public financial Management Inc. (PFM) Founded this firm to provide independent financial advisory services to state and local govts.

(See attached)

MEMBERSHIPS (continued)

Organization	Office held (if any)	Dates
Delaware River Port Authority		
PA. State Public School Bldg. Authority	Chair	1/90 - 5/93
PA. Higher Education Facilities Authority	Chair	1/90 - 5/93
PA. Housing Finance Agency		
PA. State System of Higher Education		
Buck Hill Falls Company	Treasurer	

EMPLOYMENT RECORD (continued)

Jan 1980 -- City of Philadelphia, Director of Finance

As Chief Financial Officer for the City, oversee the financial management of all functions of the City, including the courts and criminal justice system. Also serve, along with Mayor and Managing Director, on the Administrative Board for the City.

May 1983 Merrill Lynch Capital Markets, NY, Managing Director

Managing Director in charge of all municipal finance activities in a twenty state territory.

June 1985 American Capital Group (ACG), President

Founded this organization with the objective of providing both financial advisory and investment banking services to government and non-profit clients in PA, NJ and Del.

Jan 1990 Commonwealth of Pennsylvania, Special Asst. to the Governor

Senior staff advisor to the Governor with oversight of the Dept of Public Welfare and the Dept of Public Health; liaison with the City of Philadelphia and the Southeastern Pennsylvania Transportation Authority

**Government
experience:**

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

In addition to employment with the City of Philadelphia and
the Commonwealth of Pennsylvania, VISTA, and the City of Fresno,
as President of PFM, clients included: the State of Hawaii; the
State of New York; City of Yonkers; City of Memphis; and the US
Conference of Mayors. As Managing Director of Merrill Lynch
Capital Markets, clients included: State of Alabama, State of
Montana, State of New Jersey, and the cities of Pittsburgh and Atlanta.

**Published
writings:**

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Co-author of "A Financial Management Handbook for Mayors and
City Managers"
"Financing Urban Economic Development" published in
The Annals of the American Academy of Political and Social
Sciences.

**Political
affiliations
and activities:**

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Worked on the following campaigns: Clinton for President; Wofford
for Senate; Casey for Governor; and Green for Mayor.

Political

contributions:

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

Friends of Dwight Evans	\$750	1993
Florio for Governor	\$650	1993
Wofford for Senator	\$1,000	1992/\$1,000 in 1992
Casey for Governor	\$1,000	1991/\$1,000 in 1990
Clinton for President	\$1,000	1992

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Please refer to my attached curriculum vitae

Future employment
relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of Interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

N/A

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

N/A

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

N/A

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JAMES A. SPADY, *Director*
215-898-4758

3814 WALNUT STREET
215-898-8216

Curriculum Vita

G. Edward DeSeve

Education

College: Cornell University, New York State School of Industrial and Labor Relations, Bachelor of Science in Labor Economics June, 1967

Graduate School: University of Pennsylvania, Wharton Graduate Division, Master of Government Administration in Public Finance, 1967-68, 1970-71
Degree granted June, 1971

Employment:

May 1968 Volunteer In Service to America (VISTA)

Assigned to work with credit unions in the San Joaquin valley of California. In addition, taught English to migrant workers in labor camps.

June 1969 Deputy Director Model Cities Program, City of Fresno

Joined the newly-forming Model Cities Program as Deputy Director of Planning and supervised the preparation of the First Model Year Application which received funding from the Department of Housing and Urban Development.

August 1971 Analyst, Community Renewal Program (CRP), City of Philadelphia December 1971 Deputy Director, CRP

Responsible for the all aspects of developing a financial management system for the City of Philadelphia pursuant to a grant from the Department of Housing and Urban Development. The project was successfully completed and the fundamentals of the system remain in place.

July 1972 Assistant to the Director of Finance, City of Philadelphia

Staff assistant responsible for implementing the installation of the financial management system, the functioning of the Finance office and communication with other city departments. Participated in the enactment of the First Class Cities Revenue Debt Act and the structuring of the first revenue bond issue of the city.

September 1974 Deputy Director of Finance for Budget, City of Philadelphia

Supervised the execution of the operating and capital budgets for fiscal year 1974-75 and the preparation of the budgets for fiscal year 1975-76. Policy disagreements with Mayor Frank Rizzo led to resignation in April, 1975.

April 1975 President, Public Financial Management Incorporated (PFM)

Founded this firm to provide independent financial advisory services to state and local governments. Major clients included:

State of Hawaii- Capital budget review and debt management study.

State of New York- Cash management review that reduced the State's spring borrowing by more than \$2 billion.

Greater Orlando Aviation Authority- Structured a series of debt transactions that financed the construction of the new Orlando Airport.

Raleigh Durham Airport- Assisted in the preparation of bond sales for airport expansion.

Philadelphia International Airport- Negotiated the Lease and Use Agreement with the signatory airlines and assisted in the first sale of airport revenue bonds.

City of Yonkers- Brought this financially troubled municipality back to the competitive sale bond market.

City of Memphis- Developed a strategic debt issuance plan for the city and assisted in bond sales.

Pennsylvania Turnpike Commission- Assisted in development of the Commission's capital program and bond sales.

Pennsylvania State Public School Building Authority- Explored allegations of trustee misconduct, revised issuance practices and served as financial advisor.

Pennsylvania Higher Education Facilities Authority- Revised indenture, developed a marketing program and assisted in bond sales.

United States Conference of Mayors- Assisted with the development of the Mayors Leadership Institute Program and wrote, under HUD sponsorship, "The Mayors Financial Management Handbook".

January 1980 Director of Finance, City of Philadelphia

The City of Philadelphia Home Rule Charter establishes the Director of Finance as the Chief Financial Officer of the City. The Director of Finance oversees the financial management of all departments, agencies, boards and commissions of the City including the courts and the criminal justice system. Functions of the Office include , accounting, data processing, budgeting, pension management, investment, collections, debt issuance and procurement.

The Director of Finance also serves, along with the Mayor and Managing Director, on the Administrative Board which is responsible for establishing and overseeing all administrative policies and coordinating collective bargaining.

Under the leadership of Mayor William J. Green, the City eliminated its deficit, operated in a positive fund balance position and posted the largest surplus in its history. The Office also assisted the School District by formulating a strategic plan to eliminate the District's deficit, and improve its financial management and by recruiting a Managing Director for Finance and Administration who implemented the plan.

The Office was heavily involved in the redevelopment aspects of the City. These included the finalization of the Gallery II development , the initiation of the Convention Center and the resolution of housing irregularities that had made the City ineligible to receive Community Development Block Grant funds.

The Director also served as a member of the City Planning Commission and as Treasurer of the Philadelphia Authority for Industrial Development. These agencies were extremely active in developing and carrying out redevelopment policies within the City.

May 1983 Managing Director, Merrill Lynch Capital Markets, New York

Managing Director in charge of all municipal finance activities in a twenty state territory . Some major transactions included:

- Refunding \$479 million of State of Alabama General Obligation Bonds
- Issuing \$411 million of State of Alabama Highway Authority Bonds
- Refunding all of the General Obligation debt of the State of Montana.
- Developing the New Jersey Infrastructure Bank
- Assisting the City of Pittsburgh to improve its credit rating.
- Financing the fourth runway at the Atlanta airport.

June 1985 President, American Capital Group (ACG)

Founded the American Capital Group with the objective of providing both financial advisory and investment banking services to government and non-profit clients in Pennsylvania, New Jersey and Delaware. In November of 1986, the firm was sold to the W.H. Newbold's Son & Co. Inc. subsidiary of the Provident Mutual Life Insurance Company. This sale enabled Newbold's/American Capital Group to serve as senior managing underwriter in larger debt transactions. Prominent among these was the Pennsylvania Housing Finance Agency (PHFA). ACG assisted PHFA with the creation and financing of programs in both single and multi-family housing including an innovative program using funds investment funds of the Commonwealth of Pennsylvania.

January 1990 Special Assistant to the Governor, Commonwealth of Pennsylvania

As senior staff advisor to the Governor, performed the following duties:

- Oversight of the Department of Public Welfare
- Oversight of the Department of Public Health
- Liaison with the City of Philadelphia
- Liaison with the Southeastern Pennsylvania Transportation Authority (SEPTA)
- Membership on the Board of Governors of the State System of Higher Education
- Finance Chair of the Pennsylvania Housing Finance Agency (PHFA)
- Commissioner of the Delaware River Port Authority (DRPA)
- Chair of the State Public School Building Authority
- Chair of the Higher Education Facilities Authority

Major accomplishments included :

- Refocusing the Medicaid program
- Passage of the Pennsylvania Intergovernmental Cooperation Authority to assist in restoring financial health to the City of Philadelphia
- Formulating a financing plan and passage of dedicated funding source legislation for the Southeastern Pennsylvania Transportation Authority (SEPTA)
- Structuring the basis for the Capital appropriations plan for the State System of Higher Education
- Implementation of the financial aspects of the HOMES program of PHFA
- Securing Congressional approval for Compact changes for the DRPA
- Initiating the PENNSAVE program for School District finance

Present Employment

Senior Lecturer, Fels Center of Government, the University of Pennsylvania

Have served as Senior Lecturer at the Fels Center since 1985. Courses have included Public Finance: Theory and Systems; Management Methods; and Infrastructure Finance. Directed the Government Resources Group which has provided consulting services to governments and private corporations.

Director, Drexel Partnership Interests (DPI)- B Corporation

DBI-B was formed as a part of the reorganization of Drexel Burnham Lambert. Responsibilities as a director include oversight of the distribution of funds from \$1.3 billion of Drexel limited partnerships to various claimants.

Publications

A Financial Management Handbook for Mayors and City Managers,
Co-Author.

"Financing Urban Economic Development", The Annals of the American Academy of Political and Social Sciences.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Gaffney (LAST) Susan (FIRST) Mary (OTHER)

Position to which nominated: Inspector General
Dept. of Housing and Urban Development Date of nomination: 6/22/93

Date of birth: 29 9 43 (DAY) (MONTH) (YEAR) Place of birth: Key West, Florida

Marital status: single Full name of spouse: n/a

Name and ages of children: n/a

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	<u>Cornell University</u>	<u>9/67-6/69</u>	<u>none</u>	<u>n/a</u>
	<u>Johns Hopkins School of Advanced International Studies</u>	<u>9/65-6/67</u>	<u>M.A.</u>	<u>6/67</u>
	<u>Wilson College</u>	<u>9/61-6/65</u>	<u>B.A.</u>	<u>6/65</u>
	<u>DuBois, PA. Area High School</u>	<u>9/58-6/61</u>	<u>high school diploma</u>	<u>6/61</u>
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Ford Foundation Fellowship at Cornell

Memberships:

List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Association of Government Accountants	none	1988 to current

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

See attached resume.

Government
experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

I worked for the City of New York's Department of Housing
Preservation and Development from 8/69 to 9/79. See the attached
resume for the positions I held with the Department of Housing
Preservation and Development.

Published
writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

none

Political
affiliations
and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

none

Political

contributions:

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

none

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment
relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

n/a (I am currently employed by the Federal Government.)

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

n/a (I have been employed by the Federal Government since 1979.)

3. Has anybody made you a commitment to a job after you leave government?

no

4. Do you expect to serve the full term for which you have been appointed?

yes

Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

none

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

I have entered into an Ethics Agreement requiring my recusal

from any HUD matters pertaining to Winthrop Residential

Associates I, a limited partnership in which I have invested, or

to a Pennsylvania Housing Finance Bond that I hold.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

none

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

none

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

As noted above, I have entered into an Ethics Agreement that

requires my recusing myself from any HUD matters pertaining to Winthrop Residential Associates I, a limited partnership in which I have invested, or to a PA. Housing Finance Bond that I hold.

Civil, criminal and
investigatory
actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

none

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

none

Susan Gaffney
P.O. Box 5069
Falls Church, Virginia 22044
202-395-6911 (work)
703-845-8232 (home)

EXPERIENCE

Chief, Management Integrity Branch, Office of Management and Budget (September 1991 to present): develop government-wide policy relating to the Federal Managers' Financial Integrity Act and the Inspectors General; manage OMB's High Risk List; direct government-wide implementation of organizational, personnel, and reporting requirements of the Chief Financial Officers Act.

Assistant Director (Acting), Financial Management Division, Office of Management and Budget (April 1990 to September 1991): directed OMB's Financial Policy and Systems Branch, Management Integrity Branch, and Cash and Credit Branch. Developed OMB's financial management strategy and implementing policy for the Chief Financial Officers Act; formulated revised policy and instructions for the Federal Managers' Financial Integrity Act, Federal credit programs, and the cost principles governing Federal reimbursements.

Deputy Inspector General, General Services Administration (April 1987 to April 1990): collaborated with the Inspector General in directing all audit, investigations, and administrative functions of the Office of Inspector General.

Assistant Inspector General, General Services Administration (June 1982 to April 1987): developed policy and plans governing the audit and investigative functions of the Office of Inspector General; directed the budget, personnel, and information management functions of the Office of Inspector General, as well as the Office's internal evaluation program.

Director of Policy, Plans, and Programs, Office of Inspector General, Agency for International Development (September 1979 to June 1982): developed policy and plans governing the audit and investigative functions of the Office of Inspector General; directed AID's audit followup system and the internal evaluation function within the Office of Inspector General.

Deputy Commissioner, Department of Housing Preservation and Development, City of New York (January 1978 to September 1979): chief fiscal and administrative officer for the agency; directed agency-wide policy development and operations in the areas of budget, accounting, auditing, financial management systems, personnel, purchasing, plant management.

Department of Housing Preservation and Development, City of New York (January 1970 to January 1978): progression from staff analyst positions to Budget Director and then Assistant Administrator with responsibility for agency-wide personnel, budget, purchasing, and plant management functions.

EDUCATION

PhD program in Economics, Cornell University, September 1967 to June 1969 (no degree received)
MA, Johns Hopkins School of Advanced International Studies, June 1967
BA, Wilson College, June 1965

AWARDS: Presidential Meritorious Rank Award (1989); SES Performance Bonuses (1991, 1988, 1986, 1985, 1983); Distinguished Honor Award, Agency for International Development (1982). Joint Financial Management Improvement Program Award for Distinguished Leadership (1992).

STATEMENT OF QUALIFICATIONS TO SERVE AS INSPECTOR GENERAL,
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

My principal qualifications to serve as Inspector General, Department of Housing and Urban Development, are as follows.

- I have extensive knowledge about and experience in all aspects of inspector general work. I have held senior positions within Federal offices of inspector general for a total of ten and one-half years (Director of Policy, Plans, and Programs at the Office of Inspector General, Agency for International Development; Assistant Inspector General, General Services Administration; and Deputy Inspector General, General Services Administration). Notably, each of these positions required my being knowledgeable about, and providing leadership in, all aspects of inspector general operations -- audits, investigations, and overall policy and management.

In addition, my current position as Chief, Management Integrity Branch, Office of Management and Budget, entails providing support and coordination of inspector general activities throughout the Federal Government.

- I have experience in dealing with policy and program issues at a government-wide level. The positions I have held at the Office of Management and Budget -- Acting Assistant Director, Financial Management Division, then Chief, Management Integrity Branch -- have afforded me an exceptional opportunity to understand issues, processes, and concerns from the perspective of the Congress as well as the Administration. At the Office of Management and Budget, for instance, I have worked closely with congressional staffers and Administration officials in ensuring the proper implementation of the Chief Financial Officers Act and the Inspector General Act.
- I have background in government housing programs. From 1969 to 1979, I was employed by the City of New York's Department of Housing Preservation and Development -- starting as a staff analyst and leaving as Deputy Commissioner for Administration. (The Department of Housing Preservation and Development was and is responsible for administering all subsidized housing programs, except public housing, for the City of New York.) While not current, this experience gave me a grounding in housing issues, programs, and actors that is, to a significant extent, still relevant.

Through my experience with the Department of Housing Preservation and Development, I also gained a practical appreciation of the constraints and complexities facing managers of housing programs. I believe that this understanding of management's perspective is essential to achieving optimal results from the inspector general function.

- I am committed in attitude and action to the inspector general concept. The essence of the Inspector General Act is independent and objective reporting, both to the Congress and to the agency head. I strongly believe that such reporting is essential to instilling integrity, efficiency, and effectiveness within the Federal Government; and my career reflects my personal commitment to that principle.

The challenge at the Department of Housing and Urban Development is to ensure not only that independent and objective reporting takes place, but that it results in positive change. I believe that my background in inspector general work, government-wide issues and processes, and day-to-day management has given me the knowledge and skills I need to meet that challenge.

NOMINATIONS OF:

**ARTHUR LEVITT, JR. TO BE CHAIRMAN OF
THE SECURITIES AND EXCHANGE COMMIS-
SION**

**ALAN S. BLINDER TO BE A MEMBER OF THE
COUNCIL OF ECONOMIC ADVISERS**

**JOSEPH E. STIGLITZ TO BE A MEMBER OF
THE COUNCIL OF ECONOMIC ADVISERS**

TUESDAY, JULY, 13, 1993

**U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.**

The committee met, pursuant to notice, at 10:07 a.m., in room 538 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The committee will come to order. Let me welcome all those in attendance this morning. We have three important nominations to consider today, and we're going to be starting with Arthur Levitt, who is the nominee to head the SEC.

Before we do that, Senator Bradley is here today and wants to make introductory comments about Alan Blinder, and we are very pleased to have Senator Bradley here. So we are going to proceed out of order and hear from Senator Bradley now, then we'll excuse him and we'll move on with Mr. Levitt.

Senator Bradley, we're happy to have you.

OPENING COMMENTS OF SENATOR BILL BRADLEY

Senator BRADLEY. Thank you very much, Mr. Chairman. I suppose that I could be here to introduce Arthur Levitt as well, but it's my honor to—

The CHAIRMAN. You only get one turn.

[Laughter.]

Senator BRADLEY. I'll make one introduction to the committee today, and that is one of the Nation's finest economists, Alan S. Blinder.

We are at a critical crossroads in our Nation as we attempt to face up to some of the daunting tasks of promoting long-term economic growth by tackling our national debt.

Dr. Blinder will serve our President and our Nation with great distinction as a member of the President's Council of Economic Advisers. He is currently serving as Chief Economist of the Council.

I would also like to introduce Alan's wife to the committee, Madeline. There she is in the back. She was unable to get a seat in the committee. Madeline, why don't you come up and have a seat in the front row center.

The CHAIRMAN. I think we've got a seat right over here and you're very welcome to it.

Senator BRADLEY. The Chairman is a very hospitable Chairman and he would like to accommodate the spouses of all the nominees.

The CHAIRMAN. We might even give you Senator Bradley's seat when he leaves.

[Laughter.]

Senator BRADLEY. You can have my seat, yes, and that will be very shortly, Mr. Chairman.

[Laughter.]

I know that she is going to bear an equal part of the sacrifice of this public service. So she ought to have a front row seat.

Dr. Blinder has made a major contribution, both to the Nation and to the State of New Jersey. He has had a long and distinguished association with Princeton University where he has been the Gordon S. Rentschler Memorial Professor of Economics since 1971.

Dr. Blinder served as Chair of Princeton's Department of Economics from 1988 to 1990, and was also the Founder and Director of Princeton's Center of Economic Policy Studies, one of our Nation's most innovative think-tanks for economic policy.

He is regarded as one of the university's most gifted educators and will sorely be missed at Princeton while he moves on to serve the higher need here in Washington.

This is Dr. Blinder's second tour with the Executive Branch. He served briefly as Deputy Assistant Director of the Congressional Budget Office soon after its inception in 1976.

He has also contributed greatly to the public debate over economic policy through his numerous publications, and I doubt that there is a Member of this committee who has not read one of those thought-provoking articles in either *Business Week* or the *Washington Post* or other newspapers.

Dr. Blinder has also made his mark in academia being the author and co-author of 10 books and scores of articles on economics, and I might say one of the best selling textbooks of America.

I also have the good fortune to consider Alan Blinder a friend, and it's a pleasure for me to be here to share this moment with him. I know that he looks at his public service with a great deal of anticipation and commitment and with the highest possible ideals in mind.

I think the country and the administration is lucky to have him willing to serve, and I hope the committee will grant him speedy and unanimous confirmation as a member of the President's Committee and Council on Economic Advisers.

Mr. Chairman, thank you very much for the opportunity to go first today.

The CHAIRMAN. Thank you, Senator Bradley. Let me go ahead and excuse you.

Also, as long as we have started with Member's statement on behalf of candidates, Senator Boxer, I know you also want to make an opening introduction for Joseph Stiglitz. So if Mr. Stiglitz comes on up and is seated for that purpose, I'm going to have Senator Boxer now make her comments as well.

[Mr. Stiglitz comes to the witness table.]

OPENING COMMENTS BY SENATOR BARBARA BOXER

Senator BOXER. Thank you so much, Mr. Chairman, for your courtesy.

I am pleased and honored to introduce Dr. Joseph Stiglitz as one of President Clinton's nominees to the Council of Economic Advisers.

Dr. Stiglitz was born in Indiana, and he has made California his home. For the past several years while a Professor of Economics at Stanford, in 1976 he met his wife, and after a time at Oxford as the Drummond Professor of Economics and an Economics Professor at Princeton, Dr. Stiglitz returned to Stanford in 1988. In 1992 he succeeded Nobel Prize winner Ken Arrow, one of the world's leading economic theorists, as the Joan Kenney Professor of Economics at Stanford University.

Dr. Stiglitz earned his doctorate in economics at MIT in 1967 where he taught for one year as an assistant professor before moving to Yale.

At the age of just 26, Mr. Chairman, he became the youngest full professor at Yale in more than a century. Talk about precocious!

As the co-author of the leading textbook in the world in the area known as the economics of the public sector, Dr. Stiglitz has focused on developing and understanding the basic principles which should guide us in understanding the appropriate economic role of the Government.

He has also significantly contributed to the understanding of the basic foundations which govern economic relations and believes that economic analysis should be relevant to economic practice.

As the founding editor of the highly successful *Journal of Economic Perspectives*, Dr. Stiglitz has been at the forefront of trying to communicate modern economic ideas to wider audiences.

The contributions made by Dr. Stiglitz are perhaps best summarized by the American Economic Association when it awarded him, in 1979, the John Bates Clark Medal, an award made every 2 years to the economist under 40 who has made the most significant contribution to economics. This is what the AEA said:

Stiglitz is beyond compare among younger economists for the range and variety of his theoretical achievements as well as for their vigor and their liveliness. From growth and capital to the economics of discrimination, from public finance to corporate finance, from information to uncertainty, from competitive equilibrium with exhaustible resources to monopolistic competition and product diversity contemporary economic theory is criss-crossed with his footprints.

Mr. Chairman, at a time when the President is grappling with the tremendous challenges of repairing our economy I think the Nation is extremely fortunate to be able to take advantage of the

expertise that Dr. Stiglitz has to offer. Again, I am honored and pleased, not only to introduce Dr. Stiglitz, but to finish this introduction because—

[Laughter.]

—This was a lot to say about a fantastic human being.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Boxer.

We have distinguished nominees here today so that it's entirely appropriate that you make those points and make them now.

Let me excuse you, and we're going to proceed with opening statements here from Members on our nominees. I have an initial statement to make, and at the end of my remarks, Senator D'Amato, who wants to be here, is otherwise detained this morning and cannot be here. So he has a statement that I want to insert in the record immediately after my own remarks now.

We're here to consider nominations to very important financial regulatory and economic policy positions in our Government. We're going to first this morning consider the nomination of Arthur Levitt to be the Chairman of the Securities and Exchange Commission, and then after hearing from and questioning Mr. Levitt we'll consider the nominations of Alan Blinder and Joseph Stiglitz to be members of the President's Council of Economic Advisers, also very important positions and especially now in terms of circumstances in the country.

We all know that healthy financial markets are crucial to the American economy, and at present our markets appear robust. During the first half of 1993 initial public offerings of stock reached a record \$25 billion. Individual investors have been putting their money into mutual funds in record amounts. With such investments records being broken, it's no surprise that Wall Street's profits reached an all-time high last year.

Our vibrant markets are due in large part to the vigorous enforcement program carried out by the SEC. Because the SEC is properly policing the financial markets, investors have confidence in the integrity of those markets.

Still there are a number of important issues that are before the Commission that will need to be addressed, and these include, first, market structure. The SEC is currently conducting a major study on the structure of the U.S. stock markets. The study known as Market 2000 will review the significant changes in the U.S. stock markets over the past 20 years and hopefully will result in recommendations for potential market structure improvements.

The NASDAQ dealer market now rivals the auction markets. Stock trading is becoming fragmented, and stocks listed on the New York Stock Exchange are increasingly traded off the exchange often because brokers are paid to direct order flow. We'll talk to the nominee this morning about that.

With regard to derivatives, the derivatives market has grown enormously. Corporations rely on derivatives to minimize risk and increase efficiency. Currently securities are regulated separately from derivatives. Congress has commissioned a number of studies on the appropriate regulatory structure for the derivative products, and we'll talk about that this morning.

With regard to mutual funds, we have seen mutual fund assets grow now to over \$1 trillion. An SEC staff study completed last year recommended many changes in the statute governing mutual funds. In addition, bank customers must be able to distinguish between insured deposits and uninsured mutual funds.

Regarding internationalization, U.S. securities and future exchanges face greater competition now from foreign markets. The internationalization of financial services highlights the need for cooperation among regulators around the world.

Regarding small business, the U.S. economy is clearly dependent upon small business for much of its job creation. So small business must have access to the capital that it needs to grow. Given the importance of the securities markets to our economic growth, the SEC Chairman will be an individual and should be an individual of considerable experience and vision. I think President Clinton has found such a person in Arthur Levitt.

After graduating Phi Beta Kappa from Williams College and serving in the Air Force, Mr. Levitt held positions with Time, Incorporated and Oppenheimer Industries.

In 1962 he joined a brokerage firm that he helped build into Shearson, Hayden, Stone. He was president of that firm from 1969 to 1978, and then from 1978 to 1989 Mr. Levitt was chairman of the American Stock Exchange, the third largest stock exchange in the country.

He has also been very active in the public sector. From 1978 to 1980 he was chairman of the White House Small Business Task Force. More recently he was a member of the President's Base Closure and Realignment Commission. He helped found the American Business Conference, a forum for growth companies to comment on public policy.

I think by any measure Mr. Levitt's background and character make him an excellent choice for SEC Chairman.

After other Senators have made their opening statements, then we will call upon the nominee for his statement, and then we'll get into questions at that time. Let me now proceed in the order in which people have arrived for any opening statements they want to make.

PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

Senator D'AMATO. Mr. Chairman, I am pleased to be here today to consider the nomination of Arthur Levitt to be Chairman of the Securities and Exchange Commission.

I am particularly pleased that Arthur Levitt has been nominated to be the Chairman. Arthur Levitt has many outstanding qualities—not the least of which is that he is from my home State of New York.

Over the years, Arthur has been active in the New York community and he has been involved in many aspects of the securities industry. He has been a successful entrepreneur, an effective regulator, and an active investor. As a result, Arthur has a unique perspective of the capital markets that will enable him to achieve the critical balance of fostering industry growth while maintaining investor protection.

The SEC is about to face some new important and complex issues involving market structure and investor protection. The SEC is expected to complete the "Market 2000" study—a much anticipated review of the stock market structure—sometime this Fall. The SEC, CFTC, and Federal Reserve are also currently studying market risk associated with derivative product trading and whether there is a need for additional regulation.

Questions have also arisen about the need for additional disclosure to and protection of investors who purchase mutual funds. Although the SEC conducted a study on the laws regulating mutual funds, no steps have yet been taken on the study's recommendations.

The SEC Chairman will have to deal with these issues as well as international issues that arise as the global capital market continues to evolve. I am confident, however, that Arthur has the expertise to balance this demanding agenda.

I also want to mention that the qualities that will most make Arthur an effective SEC Chairman are not listed in the papers he submitted to this committee. As SEC Chairman, he will bring collegiality to the Commission that will benefit both the agency and the industry. In addition, I expect that Arthur will bring a sense of adventure to the Commission.

I look forward to working with Arthur once he becomes SEC Chairman to maintain the preeminence of our capital markets.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Faircloth.

OPENING COMMENT BY SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman. I really don't have an opening statement. I had an opportunity to visit with Mr. Levitt in the office a few weeks ago, and I just think, as you well said, it's a tribute to the Clinton administration when they can attract people of Mr. Levitt's background and ability to make the personal sacrifice to come and serve in the administration.

I thank you.

The CHAIRMAN. Thank you very much.

Senator SARBANES.

OPENING STATEMENT BY SENATOR PAUL S. SARBANES

Senator SARBANES. Thank you very much, Mr. Chairman.

First, I apologize because I'm not going to be able to stay through these hearings, unfortunately. As often is the case here, I have conflicting responsibilities, but if possible I will try to get back.

Let me say, Mr. Chairman, it's a happy coincidence that on the very day when the All Star Game is being played in Baltimore this evening—

The CHAIRMAN. We wondered when you would work that in.

[Laughter.]

Senator SARBANES. At Oriole Park at Camden Yards.

[Laughter.]

Senator BRADLEY. Where is that. Can you say that again.

Senator SARBANES. At Oriole Park at Camden Yards.

The CHAIRMAN. What time again is that? If you need a ticket see Senator Sarbanes after the hearing.

[Laughter.]

Senator SARBANES. No, don't do that.

[Laughter.]

That we should have all three All Stars before the committee this morning, this is a really terrific lineup that we have here today in terms of the nominees that are being sent to us by the President, and I can't tell you how pleased I am to be here and welcome to the witness table people of the quality that are here before us this morning.

First let me, and I'm going impose on the committee to say a couple of words about the two nominees, too, because I may not be here for the CEA when they actually come before the committee.

The CHAIRMAN. Please.

Senator SARBANES. First of all, let me say that I'm very pleased to welcome Arthur Levitt to the committee this morning, and I want to echo my colleague's comments about the President in drawing such talent into the Government.

Mr. Levitt brings an exceptionally distinguished background to this important position. He has been actively involved in the markets for decades, but from 1978 to 1989 was Chairman of the American Stock Exchange. Prior to that of course he had been the president and director of the brokerage firm of Shearson, Hayden, Stone, as you indicated, and he has served on a number of public sector boards and commissions.

He brings to the position a breadth of experience in the private and public sectors that have prepared him well for taking on the very large challenges confronting the next Chairman of the Securities and Exchange Commission.

I have had a chance to review his statement which he will be making, and I must say the perceptions it reflects and the understanding of the importance of the SEC and of the American capital markets I think is very refreshing.

I particularly appreciate his comment about the SEC having stood as a model of a fair, tough-minded and independent regulatory authority and that the standards of openness and honesty that it has enforced have made the American markets the envy of the world, and I think that's absolutely on point.

Mr. Levitt I think will face a number of challenges of course, including bringing order to the regulation of the so-called derivative financial products, financial futures actions and swaps, which have grown in use and importance in recent years.

There is at the moment a divided jurisdiction over these products, and the Brady Commission in its report in October 1987, recommended that they be brought together in terms of their regulation. There is a study now going on, as I understand it, involving the SEC, the CFTC and the Federal Reserve, and I think coming to grips with that issue is one of the challenges confronting securities regulations.

Mr. Chairman, you alluded to the SEC's Market 2000 Study reviewing the future structure of the U.S. stock markets. Of course, we have the increasing internationalization of securities and future markets and the need to cooperate on an international basis, and some observers feel that the municipal securities markets also need an examination.

In any event, whatever the issue, I am satisfied that Arthur Levitt will bring to the position of SEC Chairman the experience and the maturity of judgment that are required in order to meet this important responsibility, and I'm delighted that he has been nominated for this position and welcome him to the committee.

Now, as I indicated, I won't be here I don't think later when we review the nominations of Alan Blinder and Joseph Stiglitz to serve as members of the President's Council of Economic Advisers, and I would like to say just a word or two about them.

I've known Alan Blinder personally for a number of years and regard him as one of our country's leading economists. He is one of the outstanding macro-economists in the country.

I've not known Joe Stiglitz for a comparable length of time, but he does bring with him as well a reputation as one of our Nation's leading economists, as was so ably stated by my colleague from California in her opening statement with respect to him.

Mr. Chairman, I had the privilege of serving as administrative assistant to Walter Heller when he was the Chairman of the Council of Economic Advisers under President Kennedy. That Council consisted of Heller as the Chairman, Jim Tobin and Kermit Gordon as the other two members of the Council, and I think it's generally regarded as the most distinguished and effective Council of Economic Advisers since the Council was established in the Full Employment Act of 1946.

I must say that I think that the nominees that the President has put forward now for the Council of Economic Advisers, Laura Tyson is the Chairman, whom we've already confirmed, and now Alan Blinder and Joe Stiglitz bring tremendous ability and competence to the task.

I look forward to a Council of Economic Advisers which is going to be of stellar dimensions, and I'm very delighted that both Alan Blinder and Joe Stiglitz have agreed to come into the Government. So I'm very pleased to support those nominations as well. And as I said at the very outset, it's fitting and appropriate that on the day when we're playing the All Star Game in Baltimore we should have these All Stars here before the committee.

[Laughter.]

I thank you, Mr. Chairman.

The CHAIRMAN. If they don't let you throw out the first ball tonight, I mean it's not because you haven't earned the right.

Senator MACK. I wonder if the Senator would yield.

Would you say again where was that being held now?

[Laughter.]

At Camden what?

Senator SARBANES. At Oriole Park at Camden Yards.

[Laughter.]

The CHAIRMAN. Of course, Senator Mack has a very distinguished family history in baseball as well.

Senator Bennett.

OPENING COMMENTS BY SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Chairman.

I don't have a prepared opening statement. I look forward to the opportunity of questioning the witnesses.

I can't pass the opportunity, however, of noting that Mr. Levitt, whom I consider one of the best nominees the President has ever made for any of the positions we've seen, has had the wisdom to donate \$500 to Senator Domenici's campaign——

[Laughter.]

——And \$1,000 to Senator Dole's campaign for President. So we have a man here who has good taste.

[Laughter.]

The CHAIRMAN. Senator Campbell.

Senator CAMPBELL. No opening statement.

The CHAIRMAN. Thank you.

Senator Boxer.

Senator BOXER. Thank you, Mr. Chairman.

I have no opening statement. I'm supportive of this nominee, and I'm going to ask him later about the FASB rule, just to alert him to it, which is a proposal that I think would really hurt a lot of the high-tech industries in my State and across the country, and I'm looking forward to hearing him talk about that.

The CHAIRMAN. Very good.

Senator Mack.

OPENING STATEMENT BY SENATOR CONNIE MACK

Senator MACK. Thank you, Mr. Chairman.

Welcome, Mr. Levitt. I look forward to hearing from you and the other nominees. I am particularly interested in hearing from you concerning a proposal Senator Lieberman, Senator Boxer, Senator Feinstein and myself call the Equity Expansion Act of 1993. It refers to the issue that Senator Boxer just referred to, a FASB ruling.

The Equity Expansion Act creates a new form of employee stock option called the performance stock option. This option requires no taxes from employees when exercised, and it gives them strong tax incentives to hold onto their stock after they acquire it.

Stock options make it possible for new companies to create new jobs with significantly less cash than they would otherwise be required. It would also enable growing companies to attract the key people who can make the difference at each stage of the company's progress. Further, stock options can stretch scarce intra-capital dollars and allow companies to hire more people than they otherwise would.

So I'm going to pursue questions along that line as well. I appreciate the time, Mr. Chairman.

Thank you, Senator Mack.

Senator Murray, let me say we're very pleased to have you back with us, and we would like to hear from you now.

OPENING COMMENT BY SENATOR PATTY MURRAY

Senator MURRAY. It's great to be back. Thank you, Mr. Chairman.

Welcome, Mr. Levitt. I join my colleagues in welcoming you here, and from the sounds of this committee I must say that I will look forward to working with you for many years to come. Thank you.

The CHAIRMAN. Thank you very much.

Senator Domenici.

OPENING STATEMENT BY SENATOR PETE V. DOMENICI

Senator DOMENICI. Thank you very much, Mr. Chairman.

I think it should be noted about my friend, Arthur Levitt, that he also has contributed a great deal to Democratic candidates.

[Laughter.]

Indeed proportionately speaking he is with the Majority.

[Laughter.]

Having said that, I don't really think that has much to with today, and I join with those who said that our country is very fortunate and our President is indeed also fortunate that Mr. Levitt would take this job. Clearly frequently we put people in positions in Government that really have had no basic experience with the activities day to day that they're regulating. In this case we have one who has seen the entire security industry change radically, and he has been part of that for the better.

I congratulate you and your wife. Incidentally, they seem to be doing much better in their old age, and many of you are wondering why. It's because they have found Santa Fe, New Mexico, right?

[Laughter.]

Mr. LEVITT. Right.

Senator DOMENICI. They love it there and they've told me that.

Senator MACK. That's not your Camden Yards, is it?

[Laughter.]

Senator DOMENICI. No. They don't have a professional team there, but it's a great place as New Mexico is. But let me move on very quickly.

Mr. Levitt, I'm going to stay here for a while. I want to talk a little bit about what I consider to be excess litigation against small startup companies. I really would like to get your view on that. I know you're familiar not necessarily with any specific legislation, but I think this issue is one the SEC Chairman should address as we move toward some reform.

I want to say to the committee and to the people here that I'm on the group that's going to suggest reorganizing the Senate. One of the things we are considering is recommending to the Majority and Minority Leaders that we conduct nomination hearings differently. Instead of hearing from Members so much, we should hear more from the witnesses.

We are going to recommend that only the Chairman and ranking Members give opening remarks and the rest of us listen until our turn to question comes. That would really be a welcome reprieve for these wonderful candidates who have to listen to us when they really came here to speak. Having said that, my comments are inordinately short for me.

[Laughter.]

And that's because I'm trying to set a pattern and get ready for this reform.

Thank you very much, Mr. Chairman.

Mr. Levitt, it's great to see you here.

The CHAIRMAN. I served under that reform when you were serving as Chairman of the Budget Committee, and that's one of the reasons why we do it differently here.

[Laughter.]

We heard a lot from the Chairman in those days and not from the rest of the Members, and I say that with great respect.

[Laughter.]

Senator DOMENICI. Thank you very much.

The CHAIRMAN. Let me now recognize Senator Dodd, who is the Chairman of the Securities Subcommittee, gives great leadership in this area and I know has very strong feelings about the issues before the Commission.

Senator Dodd.

OPENING STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Thank you very much, Mr. Chairman.

I, too, noted, Author, the list of contributions made, and I do duly report, despite the reference to good taste, that not a single contribution was made to the Chairman of the Securities Subcommittee.

[Laughter.]

Let me welcome you here to the committee and congratulate you and the President on this nomination. It's not a secret that I'm a strong advocate of your nomination and have been from the very beginning and believe you'll do an excellent job.

Mr. Chairman, having just listened to my colleague from New Mexico, his admonition, I do want to take a minute or so, if I can, to just outline some broad areas that you and I have talked about in the past. So I'll take a minute or so in the opening statement because I think it's important, and I appreciate your comments about the role of the subcommittee in working with the SEC and the related issues.

Clearly, Mr. Levitt, you have the experience and the skills and the intellect and the temperament to serve as the chairman of the SEC. You've an entrepreneur, as has been noted by my colleagues, as chairman of the American Stock Exchange, you've been a regulator, and I'm convinced that you have what is perhaps the most important qualification for the job, and that is a deep commitment to the notion of investor confidence, which I happen to believe is the critically most important issue that any member of the SEC must embrace.

It's the foundation of strong capital markets, as you know, and perhaps you more than anyone else who has been appointed to this position in recent understand and appreciate that basic underlying concept.

Our securities markets have functioned as an extraordinary capital raising machine. They are the strongest, most liquid capital markets in the world, and it's significant that at a time when the credit crunch has dried up bank lending all over the United States for the past several years the securities markets have raised record amounts of capital. Over \$900 billion in new capital was raised last year alone.

Our markets have grown and prospered and they have fueled economic growth and job creation in large part due to a strong SEC, at least that's my view. Millions of Americans have participated in our capitalistic system and in the growth of American business because they have confidence that our markets are fair.

If they didn't believe that, I don't believe you would be seeing the results we have recently.

I would like to take just a few minutes, if I could, and just outline three or four areas that I would like you to comment on when we get to our questions, unless you may make reference to them in your opening remarks.

First of all, let me start with some fundamentals. You're going to have to manage an agency with budget limits set by the Congress and the President, and yet ensure that it fulfills its statutory mission of investor protection.

Now markets are experiencing, as I've noted already, extraordinary growth. More than \$20 billion in new money has flowed into mutual funds each month during the past 5 months of this year. Some have suggested that you need more staff to keep up with this growing industry.

Yet, although the SEC will get a slight funding increase in fiscal year 1994, it will have to cut its staff, a relatively small cut of about 2 percent, but nonetheless a cut.

I want your assessment of whether or not the Commission can fulfill its statutory mandate while absorbing these cuts. We do not want a situation such as we had with the thrift regulators in the 1980's when the industry was growing, developing new products and take new risks, while the regulators were cutting staff, what I call desupervision, and in fact I believe more than anything else was desupervision. We cut the staff by 20 percent in fact at the time that we saw that industry expanding and growing.

So I would like to get some general outline from you this morning about whether or not you're going to be able to meet your responsibilities at the SEC while cutting staff and watching a growing industry.

The second area I want to pursue is the impact of regulation on the access of capital. The critical question here is how do you protect investors with, as President Roosevelt said of the original Securities Act, the least interference with honest business.

I have a piece of legislation I have introduced that was developed with the SEC that is designed to ease some of the regulatory burdens on small businesses seeking to raise capital. Senator D'Amato of this committee has another bill, which I co-sponsored, which would facilitate the securitization of small business loans.

Both bills are designed to remove regulatory impediments, take a fresh look at certain regulations and remove those which unnecessarily, and I want to emphasize unnecessarily restrict access to capital. There are other areas where regulation may be burdensome and impose unnecessary costs, and we can get into those during the question period.

I would mention just a few specific issues. It seems to me our overall goal must provide greater access to capital, more efficient regulation and more incentives for entrepreneurs, and yet protect investors and give investors full and fair disclosure, and I would like to hear your views on those issues as well.

The third area I hope we can discuss this morning is the relationship of the SEC to other financial regulators. On this front, and I say this with all due respect, the last administration was an abysmal failure, in my view. Many times when I sat here chairing

this subcommittee hearing I watched the chief financial regulators sitting where you're sitting this morning publicly bicker with one another.

You can be the best Chairman the SEC has ever had, your staff can work long hours, you can make intelligent decisions, and yet you could fail, in my view, in your efforts to protect investors if there is not sufficient coordination and cooperation among all of the financial regulators.

In this day and age it's impossible to separate the securities markets and the banking system from the futures markets. At the least there should be coordination among all of the financial regulators and attempts to resolve differences before they are brought to Congress.

I would like to hear your thoughts on this, and I would also like to hear your plans with respect to coordination on the international front and also coordination with State regulators. The point is that the SEC just cannot do its job in isolation.

The final area that I would like to raise with you here briefly this morning is your vision for the market of the future. Now markets and institutions are going through a period of enormous change.

The SEC has been in the forefront of those studying the changes in its Market 2000 Study, the Investment Company Act Study and the ongoing studies of swaps and other new financial instruments. A vibrant financial services sector is essential to our international competitiveness. Today's financial markets have the capacity for greater volume, greater velocity, greater innovation and just as importantly greater risk.

I would like to hear your views on how we can best manage that risk and yet foster innovation that has made our markets the strongest in the world, and how does the SEC in these fast-moving and innovative markets of the future still protect that individual investor whose first contact with the American capital markets may be a part-time financial planner who sells insurance or a sales representative who sells mutual fund shares in a bank lobby.

You have a very large job in front of you, and I know you know that. I'm again confident, as others have stated, that you'll do it well, and I'm looking forward to working with you as the subcommittee chairman responsible for jurisdiction in this area.

I apologize in taking a little more time, Mr. Chairman, in those areas, but those to me are the critical four areas, the broad areas that I would like to have you address this morning, and then we have some other specific areas we can get into.

Again, congratulations on this nomination. I'm glad you accepted the offer. I'm delighted the President had the wisdom to appoint you to this position, and hopefully we can end up with a swift confirmation process and install you as soon as possible.

Mr. LEVITT. Thank you.

The CHAIRMAN. Mr. Levitt, now let me ask you to stand and raise your right hand and take the oath, please.

[Whereupon, Arthur Levitt, Jr., stood, raised his right hand and was administered the oath as follows by Chairman Riegle:]

The CHAIRMAN. Do you swear that the testimony you are about to give is the truth, the whole truth and nothing but the truth, so help you God?

Mr. LEVITT. I do.

The CHAIRMAN. Do you agree to appear and testify before any duly constituted committee of the Senate?

Mr. LEVITT. I do.

The CHAIRMAN. Very good.

Let me welcome you again. If there is anybody who is accompanying you that you would like to introduce, please do so, and then we would like to have your opening statement now.

STATEMENT OF ARTHUR LEVITT, JR., OF NEW YORK, CONCERNING HIS NOMINATION TO BE CHAIRMAN OF THE U.S. SECURITIES AND EXCHANGE COMMISSION

Mr. LEVITT. Mr. Chairman and Members of the committee, it's a real pleasure for me to appear before you today. I am deeply grateful for the honor President Clinton has given me by nominating me to be Commissioner of the Securities and Exchange Commission, and I thank you, Mr. Chairman, Senator Dodd and other Members of the committee and staff for your support and your encouragement during this confirmation process.

Please allow me to introduce my wife, Marilyn. Her support and encouragement and participation have been the foundation of every aspect of my working life and my family life. With her are two other very important people in our lives, our daughter, Lauri, and our son-in-law, Michael Friedland.

The CHAIRMAN. We're pleased to have you.

Mr. LEVITT. Our son Arthur had hoped to be here with us, but, unfortunately, he was called out of the country on business.

I want you to know from the beginning how much I respect the critical role of this committee and its staff in the regulatory process. The combination of your oversight together with the commitment of the SEC in fulfilling its mission have preserved the integrity of this agency for six decades. It is an arm of our Federal Government that has enjoyed almost universal respect and admiration both at home and abroad.

I have spent more than 30 years working in and investing through the marketplace as a broker, as an investor and as chairman of the American Stock Exchange. I thank you for the part you have played in maintaining its efficiency, effectiveness, and integrity.

The SEC exists to protect the integrity of the world's greatest financial marketplace. It has consistently served as a model of fair, tough-minded, and independent regulatory authority. Its name stands for protection of the public interest. It has earned its reputation the old fashioned way, with unwavering determination to defend the interests of investors and the reputation of our capital markets.

The standards of openness and honesty that it has enforced have made the American markets the envy of the world. The SEC's disciplinary mechanisms have worked repeatedly and successfully to deter and, when necessary, to punish those who would subvert the markets for illicit gain. My very first goal as Chairman will be to

ensure vigilant enforcement of sound rules that make ours a clean, competitive marketplace.

Second, I will focus on the mission of the agency to nurture a climate that encourages the creation of capital. Much has changed in the marketplace since the birth of the SEC. New competition at home and abroad, new technology, instantaneous communications, geometric increases in international travel and trade, the creation of more complex financial products, and greater involvement in our markets by both American citizens and investors in corporations from overseas.

We must concentrate not only on the needs of the large multinational conglomerates caught up in global competitive struggles, but we must also help small entrepreneurial businesses raise the capital that is the absolute life blood of innovation. These emergent businesses have proved to be the engine of economic growth, creating a disproportionately large share of our jobs, our research and development breakthroughs, and our higher standards of living.

Finally, to protect the American capital markets and their participants, we must make sure that our marketplaces remain vigorous and efficient. The SEC must be certain the requirements it imposes are sound, are reasonable and are cost effective. Regulations that needlessly increase costs help drive transactions offshore where, I might add, investors often lack the protection of the laws that the Commission is here to enforce.

If confirmed by the Senate, I will devote my total and untiring efforts to enhancing and defending the superb legacy of the SEC. I eagerly look forward to working with you and the Commission during the coming years, and I feel confident about the ability of all of us working together with the best interests of investors, issuers and the markets in mind to meet these challenges.

Thank you, Mr. Chairman and Members of the committee, for this opportunity to be with you today. I appreciate your thoughtful words and would be pleased to try to answer any questions you may have.

The CHAIRMAN. Thank you for a very good opening statement. Let me move through a number of issues, and let me start with market structure. As we've discussed this morning and as you know, the SEC is currently studying the structure of the U.S. stock markets, and on many issues the New York Stock Exchange and the American Stock Exchange have different views from other market participants, and of course you have served as a former Chairman of the American Stock Exchange.

Can you tell us and assure us that you will be able to review the arguments of the various exchanges and reach conclusions in a completely objective way?

Mr. LEVITT. Yes, I think I can assure you of that. As you probably know, I've gone through five very different careers. I served as president of Shearson, Hayden, Stone, and as such we operated in both auction and dealer markets, and both of those systems were vitally important to the success of our enterprise.

So I feel that my interests have been balanced interests through the years, and I have no hesitancy in saying that my view of our markets is such that we depend on the strongest kind of both deal-

er and auction markets, and the interplay of the two of them together is essential to the fabric of the system.

The CHAIRMAN. Do you think investors' interests are at risk when brokers pay dealers to direct order flow to them?

Mr. LEVITT. The question of the payment for order flow, whether it's a cash payment or whether it's a payment in kind of some sort, is one that has been debated by the industry and has been the subject of appearances before a variety of congressional committees. It is part of the Market 2000 Study, and it's one that I will follow very closely to determine whether the competitive opportunities created by such payment are consistent with sound business practices.

I think it's a very complex question, and it's difficult to analyze a cash payment as being separate from other kinds of inducements as part of the competitive process. I intend to study this issue very carefully because my major concern in this issue is the protection of investor interests.

I think that the question of disclosure of such payments is terribly important. I think that the investor should be notified that his order may be the result of payment of cash or other kinds of payments.

As to what to do about it specifically or what its impact may be on the marketplace, it's a subject that I intend to consider very carefully as part of the Market 2000 Study, to consult with my fellow Commissioners, and to make a determination later in the year in connection with the Market 2000 Study.

The CHAIRMAN. Do you think that disclosure by itself of this practice would be useful?

Mr. LEVITT. I think disclosure would be very important, and I think it would be useful, yes.

The CHAIRMAN. Let me move to derivatives. As we all know, one of the most important developments in the financial markets has been the growth of derivatives products, such as futures options swaps. Do you think that our financial regulators have the information and the expertise that they need to fully understand these activities?

Mr. LEVITT. Senator, the derivative market is really a moving target. It's a dynamic rather than a static market. It's very different today than it was as recently as a year ago. I think that the products are basically understood by many of the people who deal with them, but I am not persuaded that all of the managements of our firms and all of the deliverers of these products totally understand their implications.

As you undoubtedly know, there are a number of studies presently being conducted on the impact of the derivative market on our overall economy and our market structure. I believe derivatives play an important role, and the question that you asked and some of the suggestions made by a number of other Members of the committee of the need for coordination I think is fundamental to this issue. We must coordinate the various regulatory mechanisms that deal with the derivatives markets.

The CHAIRMAN. Let me ask you this, and then I'm going to yield for an opening comment to Senator Moseley-Braun.

You know, presently we've got this split of regulation on stock options and futures between the SEC and the CFTC, and I'm wondering about your own view as these products grow in size and importance about this division. The Brady Commission came to the conclusion that there would be a public benefit from a single regulator of these products. Would you agree with that?

Mr. LEVITT. In constructing, building, and working for a variety of companies that have dealt with regulatory bodies, I share the feeling of so many business people in America that duplicative, redundant, and costly regulation make our job ever so much more difficult.

I feel there clearly is duplication in terms of the regulation of our financial markets, and I feel that it is often costly and burdensome. In the best of all possible worlds, I would say that should not be. We don't have the best of all possible worlds. This battle has been fought a number of times in the past, and, in light of the compelling priorities for the SEC, it's simply one that I don't intend to commit substantial time and effort to.

The CHAIRMAN. Let me now yield briefly to Senator Moseley-Braun for an opening statement.

OPENING COMMENTS BY SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

Actually this is an opening and closing statement. I have to pre-
side in 7 minutes.

The CHAIRMAN. I understand.

Senator MOSELEY-BRAUN. But I did actually pick up, and I had a question for Mr. Levitt having to do with the exact issue of regulatory reform and a unified regulatory structure and consolidation of activities.

A proposal has been made by the chairman of the Chicago Mercantile Exchange, and I would very much like your views on that. I can't do it now. So if I can submit his proposal to you, Mr. Levitt, I would very much like to have your response and your reaction to his proposal.

Mr. LEVITT. I would be delighted. (See Q.1. and A.1.)

Senator MOSELEY-BRAUN. Thank you very much, sir. And, Mr. Chairman, my actual statement I would like to file for the record.

The CHAIRMAN. Without objection, it's so ordered.

The CHAIRMAN. Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Mr. Levitt, talking about that list, I somewhat went through it like a booby in Ben Adam. My name didn't show up either.

[Laughter.]

In 1986 when the Tax Code was changed you said you were concerned about the increase in capital gains tax and felt that it was an impediment to growth, and you said you felt very passionate about that.

Since the economic proposal in front of the House and Senate Conference will raise the rate on capital gains even higher, it is fair to say that you are still even more concerned about this tax increase on capital gains?

Mr. LEVITT. I agree with the President who has opposed this increase in the capital gains tax. So my answer to your question is yes.

Senator FAIRCLOTH. In the past you have been in favor of capital gains tax relief. Do you think we can live without it now? It looks like we're going to.

Mr. LEVITT. Well this country has remarkable resiliency and adaptive powers. The question of the impact of taxation on our markets obviously bears on decisions I shall make as Chairman of the SEC. I am reluctant to comment on tax policy. Because we have so many controversies within the area of the SEC, I'm uneasy about taking on other challenges right now.

[Laughter.]

But it is important to be able to competitively raise capital at a cost that's reasonable, and our cost of capital in the United States is not reasonable today. So I think you can assume where I stand on that issue.

Senator FAIRCLOTH. You published an article about small business in the Los Angeles Times some time back, but you made a couple of points which I think people just need to hear. It's really not a question. You said that tax stability, lower rates and simpler accounting for everyone are the best tax policies, and I certainly agree.

You said that mandated benefits, however well intended, impose a large cost burden to small business and at some point the burdens kills the benefits, and I certainly agree with that.

If confirmed, and certainly you will be, will you use your influence to help those of us who want to fight higher taxes and fight against new mandated benefit plans? Will you help us to fight those no matter who proposes them?

Mr. LEVITT. I'm going to try to do everything possible to continue the efforts of the SEC that go back now almost 15 years to make it less costly for small business to raise capital and to create the kind of regulatory environment where small business will be able to tap our capital resources and flourish, because I think that small business is the real engine of economic growth that is essential to sustaining our economy.

So I hope that the efforts of the Commission during my years as Chairman will continue to address the needs of small business as a very important priority.

Senator FAIRCLOTH. I have one other question.

The committee has held hearings about litigation, the explosion of litigation due to the misuse of security fraud statutes. This has resulted in frivolous lawsuits which discourage economic growth in volatile high-technology companies. What would you do as Chairman to stop these frivolous lawsuits which in effect amount to greenmail?

Mr. LEVITT. Senator, I was the founder of the American Business Conference, which is a group of 100 CEO's of high-growth companies. I have seen firsthand the impact of frivolous, costly, spurious litigation, and I'm very concerned about it.

Exactly how to resolve it, I'm not quite as certain because I believe that the SEC has got to focus most importantly and most compellingly on the interests of the investor, and in any number

of instances investor interests have been abused. The recourse to addressing that kind of abuse has been litigation, but it has clearly gotten out of hand, and I'm sympathetic to that issue and will devote a great deal of effort to working with the committee and others in terms of trying to find what are reasonable solutions which will still allow us to protect the interests of our American investors.

Senator FAIRCLOTH. I thank you. I just want to say in closing that I went read through your business record, and you certainly created an enviable record of success in the private sector, which I greatly admire, and particularly anybody that could be successful in agriculture.

Mr. LEVITT. Thank you.

Senator FAIRCLOTH. I thank you.

The CHAIRMAN. Senator Boxer.

Senator BOXER. Thank you, Mr. Chairman.

Mr. Levitt, that was an excellent opening statement, very much to the point, and I appreciate it.

As you know, I was a stock broker a very long time ago when a 12-million-share day was considered going through the roof. What's the average share day now on the New York Stock Exchange?

Mr. LEVITT. Hundreds of millions.

Senator BOXER. Hundreds. So the job you have is just enormous, and I wish you every good wish, I know you're going to be confirmed, hopefully unanimously by the Senate, and certainly by this committee. That's my prediction.

As I told you, I wanted to ask you about this FASB rule. This is of great concern to me, to Senator Mack and to others. You said in your statement on page 2 "I will focus the mission of the agency to nurture a climate that encourages the creation of capital." You go on to say "We must help small entrepreneurial businesses raise the capital. That is the life blood of innovation."

As you know, FASB recently issued an exposure draft of a proposal that would require companies to estimate the value of stock options granted to employees and deduct the value from their earnings. I and many others believe that this FASB proposal would severely damage the reported earnings per share of many high-tech companies.

For instance, Silicon Graphics, which is just a real victory in business these days, would have had its earnings hit by roughly 29 percent in 1992 if the FASB rule had been in effect. If you have this kind of situation happening you would have a crunch on the ability to raise capital, particularly at a time when we can't afford to have that happen.

I'm wondering if you could tell us what your view is on this rule? Do you have these concerns and do you share these concerns with me, Senators Mack Lieberman, Feinstein and others?

Mr. LEVITT. Well this is a complex issue, but it's one that I'm familiar with since I have in my business career used options as a terribly important compensation device to build companies. I have also been the recipient of options in the course of service with various companies and I know how important options are.

In the case of smaller growing businesses, options are the only device that they can use to induce employees to come to work for

the companies because they simply cannot afford the kinds of cash compensation that larger companies might be in a position to afford.

I'm also mindful of the fact that FASB is a distinguished and a neutral agency. We may not always like their findings, but I think by and large professionals in the community respect their findings.

The exposure draft has been distributed. We've had a number of comments, and the SEC is going to await further comments until the end of the year, and I want to carefully study those comments. I've already discussed this proposal some months ago with Senator Lieberman, and I'm mindful of his sentiments on that.

I understand what you're trying to accomplish, but I must share with you a nagging reservation I have about the process. Whether you support FASB or don't, I'm afraid that once you start down the road of legislating accounting procedures it's very difficult to determine where that road will lead you.

My overall view of the regulatory mechanism is that wherever possible I'm going to endeavor to use my words and my energy to persuade the business community or the investment community or the accounting community or the brokerage community to do what I think is in the best interests of investors to avoid the additional burden of legislation and regulation. Now that's not always possible. But in this case I am very apprehensive about the notion of legislating accounting standards.

Senator BOXER. I don't think any of us who support this bill want to really do this. We would prefer not to. But we are faced with a rule that could result in a real problem for our economy in one of its fastest growing sectors. As you pointed out, small business is the engine for growth, and we have a situation that is potentially a major problem because as you know, it's not just the high-paid executives who get these options but in many cases it's the middle or lower level people as well.

I have no great desire to legislate these procedures but FASB isn't proposing a rule that is simply a technical "accounting rule." Its proposed rule could hurt our economy and impair the ability of some to raise capital. I feel that we're put in a position where we don't have much choice but to respond.

I would just hope, and I truly respect your cautious answer on this, that we can turn FASB away from this rule and convince FASB that adequate disclosure is the best response. We don't need a rule that shows in a false way that companies are having trouble and their earnings are down.

So, I hope that you can use your experience and your power of persuasion to head this off. I will be the first one to be thrilled not to have to offer any legislation, because I agree with you, we would prefer not to do that.

Mr. LEVITT. I think that disclosure is, as you say, terribly important and that's a step in the right direction, and I look forward to talking to you and working through the comments and getting a better understanding of the implications of the proposal as we move down the road.

Senator BOXER. Thank you.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Boxer.

Let me just say along the line of your concern, I sent a letter back on February 4, 1993, to the chairman of the Federal Accounting Standards Board on this very issue, and I'm going to just ask unanimous consent that it be made part of the record at this point.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Mr. Levitt, all of us are impressed with the background that you bring to this job and with the judicious temperament, in addition to your resume, that you bring to the job.

You recognize, I'm sure, from your past experience that the SEC has virtual life and death authority over certain companies at various stages in their development. An SEC investigation can stop trading in a stock, and even if the investigation proves benign later on, the mere fact of it's going on can guarantee that there will be more trading for the period of the investigation, and very often the final exoneration doesn't catch up with the original suspicion that has damaged the stock or damaged the company.

If every issue were in your hands and in your office, I wouldn't be the least bit concerned about it. Unfortunately, in every large organization there are professional employees who may not measure up to the judicial temperament of the boss.

So with that preface, do you think it might be valuable for the SEC to consider an ombudsman program similar to the IRS for someone who feels that they are being treated improperly by an SEC employee in that matter of great concern might be able to appeal around that employee to some kind of a review organization? Do you think that might make any sense at all?

Mr. LEVITT. Senator, the mission of the SEC, as I've stated before, bears so vitally on protection of the public interest that the question of balancing fairness and objectivity and openness is critical to its credibility. If this Commission over a period of years had a history of being arbitrary, unfair, dictatorial, or irrational, in our society it simply would not be credible and could not exist.

Having worked with the SEC for nearly 30 years of my life and having dealt with a variety of Enforcement Directors through the years, just about every Enforcement Director for the past 30 years, I am persuaded that that division is as open and fair and reasonable as any such operation any place in the world.

We are blessed with a talented and sensitive and intelligent and experienced Enforcement Division Director. It was the first division that I visited when I first came to the SEC. I'm mindful of your concerns, and I've been the object from time to time of what I have regarded to be unreasonable regulatory procedures.

But I think the structure of the Commission, involving five Commissioners of differing backgrounds and involving the kind of relationship with the Enforcement Division in terms of deciding whether cases are brought or not brought, offers the kinds of checks and balances that I think in many ways are superior to an ombudsman.

And I would suggest to you, Senator, that if you feel any time during the next several years that the interests of corporations or individuals are being abused and that the mechanism of appeal is a closed mechanism, you can hold me personally responsible for that.

Senator BENNETT. Thank you. I have no personal experience that would lead me to believe that we need an ombudsman, but I appreciate the reaction and the answer that you've given us. As I say, if I knew that you were personally going to handle everything I would sleep very well at night, and I appreciate your willingness to receive an appeal if one should arise.

You're probably familiar with the House Bill H.R. 2515. Would you care to comment on that?

Mr. LEVITT. What bill is that, please?

Senator BENNETT. Oh, I'm sorry. Your smile told me you were. I was prepared to, and I thought, boy, I don't want to embarrass this guy.

Mr. LEVITT. I'm having such trouble with the language of Washington, if you could bear with me.

[Laughter.]

Senator BENNETT. I apologize for misreading your body language. I thought, boy, he understands all of this and I don't need to go any further.

This bill has been introduced to deal with the issue of unlisted trading privileges at the request, I would assume, of the regional stock exchanges who feel at some disadvantage to the New York Stock Exchange and presumably the American Stock Exchange because they must follow a procedure that can take from 6 to 8 weeks to complete before they can exercise their unlisted trading privileges.

The bill introduced in the House of Representatives would change the procedure and give all exchanges equal rights with respect to trading stocks on another exchange, and if you have not had a chance to review it, I would be happy to have you submit something for the record. (See Q.2. and A.2.)

Mr. LEVITT. The relationship between the regional markets and the other exchanges and the over-the-counter market is a very sensitive area and part of a pattern of competition that I think is vital to the American investor and one that I'm very committed to. I believe the preservation of those regional markets is important.

Not being totally familiar with the provisions of this proposal, I would like to submit a response to you within the next 48 hours in terms of what my position is.

Senator BENNETT. Thank you very much. I appreciate that.

Senator BENNETT. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Dodd.

Senator DODD. Thank you, Mr. Chairman.

I have outlined already the general areas that I would like to raise with you, and I'll just go back over them.

I mentioned the budget issue. Given the explosion of activity within the markets and facing a reduction in staff, although there is a slight increase for 1994, there is always a battle here. In fact, we've tried over the years, and the Chairman is familiar with this, and the Securities and Exchange Commission is one of the agencies that actually produces revenues for the Federal Government, and yet obviously there is a strong desire for those resources for obvious reasons. So I wonder if you might comment on that, and why don't you just let me limit it to that question first.

Mr. LEVITT. Well I'm glad you brought that up, Senator. You have always been a protector of the agency, and I think you're focusing on a critically important problem.

In recent years our markets have exploded not merely in terms of investor interest, but in terms of products. The variety of new products that are available to investors today is almost 12 times what was available as recently as 7 or 8 years ago, and that doesn't seem to be abating. Every new product brings new problems and new kinds of opportunities and new kinds of risks.

Having visited the agency and discussed their ability to handle this situation, I am satisfied that there is a compelling need now for additional help in specific areas. One of them is in the area of investment managers. There are some 19,000 investment managers today, and if you just think about what investment managers—

Senator DODD. You might point out where that number has come from over the last few years for those who may not be familiar with it and how that has exploded just in that area.

Mr. LEVITT. Probably 10 years ago we had fewer than 6,000 or 7,000 investment managers.

Senator DODD. I think it was more like 4,500, in that range, roughly.

Mr. LEVITT. Now what that means essentially is an investment manager is someone that advises people on how to invest their savings. Some of the smaller ones will be dealing with the savings of people with modest resources. This is an area that I think requires critical attention. We're now inspecting those investment managers once every 30 years. That's not inspection.

What we would like to do is to take on an additional 190 or 200 inspectors so we can bring that down to once every 4 or 5 years. I think that's terribly important.

The mutual fund area is another area where we need more attention. The decline in interest rates and the enormous influx of billions of dollars into mutual funds calls for greater attention being paid to this area.

I believe that the SEC has got to operate like a business. It has got to operate efficiently and cost effectively. It's the reason that I support the notion of self-funding for the agency. I think if the agency were able to avail itself of the funds that it raises, not from regulatory fines, because that would not be included for obvious reasons, but from registration statements and other fees, I believe the agency would operate more efficiently, and it would result in a deficit reduction number over a 5 year period of nearly \$900 million.

So, yes, we need additional resources. We need more people. Yes, I am mindful of the President's admonition in terms of deficit reduction. But the key point to remember here is that an SEC which is understaffed is one which can seriously impair our capital markets, and impaired capital markets will do more to damage our economic situation than almost any other thing I can think of.

This is not merely cutting back on an extravagance. It's not merely reducing expenditures that we can afford to make. I think that we need a modest increase in resources to be able to stay even with the additional demands that have exploded upon us in recent months and years.

Senator DODD. I think it's worthwhile noting, and I agree with your comments, that the industry by and large supports what you've just said. This is not always the case when you're dealing with regulations and regulatory bodies. Oftentimes the private sector finds it frightening, to put it mildly, the notion that there would be additional staff or more cops put on the beat to deal with these issues.

But I would point out that on the issue of financial planners we have legislation that would raise the fees, and in fact that legislation strongly supported by the financial planners of this country. The very people who would be asked to pay more appreciate the importance of having additional resources so there can be greater scrutiny.

The honest businesses out there in this area want to have a good police force so that they don't suffer as a result of those who engage in fraudulent activities or less than honest activities that would destroy the reputations of the majority, an overwhelming majority who are doing honest work. So it's worthwhile noting that this is maybe different than any other area I can think of where the private sector of the industry itself actually supports the notion.

I might suggest to you, and by my question here I'm not implying that this is even realistic, but as we've watched areas emerge in the last few years, and you've identified the obvious ones, the mutual funds and financial planning, there may have been other areas where there is a decline of activity and looking at how we can move personnel around, or with technology improving obviously I would be very interested in a short amount of time, in the next few months, if you would make an assessment of what the technological capabilities of the SEC are as an organization.

Given the explosion of technology that is available in the private sector, not to mention the velocity, and it's just increasing exponentially, that whether or not as a regulatory body we're keeping, not necessarily even pace with that, but at least relatively close pace with that.

Mr. LEVITT. That's a terribly important point. I don't know the answer to it.

Senator DODD. I don't either, but I'm just curious.

Mr. LEVITT. And I think you make the critical point in all of this. When I headed a brokerage firm, the last thing in the world that we could afford would be a scandal of some sort, some sort of malfeasance involving a broker, and not only for our firm, but for the industry. Any other firm that had a broker with a problem was a blight upon the securities industry and the whole financial services industry.

So there is an awful lot at stake here, and I think the companies that we oversee are more mindful than anyone else of the importance of both self-regulation and the oversight that the SEC offers. It's a terribly important point, and I thank you for making it.

Senator DODD. I would point out, by the way, that the financial planners were not enthusiastic about increased fees. Don't misunderstand me. They weren't cheering it, but they did support the legislation and appreciated what we were trying to do. We tried to craft the legislation in intelligent enough ways so that we could ac-

tually say reduce one every 30 years to one every 3 or 4 or 5 years as a way of having an intelligent inspection process.

I can see my time in this round is up.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Dodd.

Senator Mack.

Senator MACK. Thank you, Mr. Chairman.

Mr. Levitt, I would like to go ahead and continue on with the discussion about FASB and the stock options. I would like to begin by saying I really do appreciate the comments that you made, particularly with the idea that we might be opening up a massive flood of legislation that would, in essence, write the rules of accounting, which I believe would be a mistake.

In 1975 Congress overruled a FASB ruling, which really did not open the flood gates for us to step in at every juncture along the way. I feel very strongly in the point that you've raised, but there are circumstances in which the potential consequences I think are so great that we must step beyond that concern that you've raised, and I would hope that in this particular process you would do that.

I can remember people coming into my office telling me the impact from their perspective of having to make these charges. A new business that is dealing in a technology which is attempting to hire some very capable Research scientists really don't have the funds. If they had to make those charges, they wouldn't really have the funds to put together a team that would be able to develop the new technologies and the new products and continue the research that's going on.

Again, you did such an excellent job earlier in responding to the questions of Senator Boxer, and I've got some other questions which I will submit to you in writing. However, but I want to take the opportunity to kind of shift the debate a little bit about this issue, because we have a tendency to talk about these things strictly in dollars and cents or from an accounting perspective. I think there is more to it than that.

I had a younger brother who died of cancer in 1979, and you might say what has that got to do with FASB's rule about stock options. I would say it has this effect. When Michael was diagnosed with melanoma, everyone said that there was no cure for it. I mean if you had melanoma, you were going to die. It was a question of whether it was going to be 6 months or 6 years.

Dr. Stephen Rosenberg at the National Cancer Institute has done some remarkable work in the area of research on melanoma. In fact, in certain cases he's experiencing a 40 percent cure on melanoma. I can't help but ask if there had been fewer hurdles, fewer road blocks in the way of new companies starting up, and of dollars flowing into new research and into new technology, would my brother have had an opportunity to live.

I think of the thousands, the hundreds of thousands, the millions of people around our country who are looking to the breakthroughs in biotechnology and bioresearch, and that research is being impeded because of road blocks like the one that I believe could affect the flow of capital into these new businesses.

All I'm trying to say to you is that there are other aspects to this issue besides how many dollars are involved or whether or not Con-

gress should legislate in this particular area. It has a significant impact on our country's ability to create new products, new technologies, new jobs and new businesses, and I think it's a very serious issue.

I appreciate what you had to say, but I hope that you will take into consideration those other aspects.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Domenici.

Senator DOMENICI. Thank you, Mr. Chairman.

You see, I predicted it correctly. For our next two witnesses there may be only a Chairman here by the time both of you are finished speaking. But let me say that I didn't speak much in the opening round. So I'm going to use my 10 minutes.

First, it's really a personal pleasure to see you and Marylin here. I would have guessed without knowing, that the young woman sitting next to her was your daughter. She looks very much like an absolute cross between the two of you. I would have picked her out anywhere.

Let me make a few observations. There can be no doubt of the importance for capital availability, particularly equity capital. It is one of the most important aspects of current American economic success, which takes on a more vital tone with the passage of each year. Countries who compete with us are very much aware of the same thing. They have the benefit in many cases of starting much later than we did. Also, in some instances they have better tax laws, because solutions are a matter of policy for a country.

And I'm not going to burden you at this point with my critique of our tax law. But it is a tremendous disincentive for saving and investment versus consumption. Unfortunately, it's a truism. We tinker around the edges trying to fix the tax code, but frankly it's time for an overhaul. We need a move in a completely different direction with reference to the items we classify as income.

The cost of capital is still too high in the United States. In some way, it is related to the fact that we're heavily in debt and that we don't save very much. I mean clearly with those two items right up front, it's pretty easy to understand why the cost of capital and the availability of capital is not what it should be in this great country of ours.

I also believe that because we're in a modern and much different era than when capitalism started in America or anywhere that clearly we need integrity and reliability in the equity system, the sale of stock, futures and the new instruments that are coming on board.

So I think your role, which you've outlined is that you don't want to be off on side issues, but you want to be focusing on how to make the SEC to continue to be the greatest regulatory entity around through promoting the investor and the new company while at the same time, protecting those who make the markets move and run because they invest in it.

Having said that, there are a lot of things happening out there that are very different. There are millions of Americans today who took their money out of CD's. You clearly understand that, because

the interest rates were so low in the average bank that people had nowhere else to go.

Well, to a large part they're in the stock markets now, but to a very large extent they are invested in mutual funds. Frankly, there are some growing misconceptions, especially among seniors, that mutual funds are much like a CD which isn't right. Nobody is warning them because in the last 4 years, you've been getting 6.5 or 7 percent. This really isn't interest that you're going to get each year. I mean we're at 3,427 on the stock market and on the bull side, and if the market keeps moving up, they'll continue getting these very interesting rewards.

Those are all kinds of things that will eventually fall to you all. In terms of, is there enough information, is there integrity in that system, and are there many more because of innovation?

I would like to raise an issue with you that I think is of growing concern across the business section of the country. I may be the only one around that sees it this way, but I believe that our founding fathers gave us a jury system and a right to trial by our peers without any concept whatsoever that it would be used for the kinds of lawsuits that are being filed today.

In fact, I'm almost prepared to join with some experts and write a thesis on this because I believe we have thoroughly missed the point as to what we should be using juries and courtrooms for.

An area of litigation that bothers me immensely, Mr. Levitt, is the use of the courtroom and the jury to take on new companies, especially in the high tech and biomedical field where their stock is obviously volatile. I mean there is nothing fraudulent per se about stock volatility. You don't make a prima facie case of fraud because the stock of a new company went up and down rather precipitously. In fact, I would assume that's part of what you would expect today.

Nonetheless, lawsuits are filed based upon stock fluctuations, just the upward mobility or downward mobility of stock. Since the jury is out there as a threat, it becomes a regulatory mechanism. Its regulatory significance is very, very difficult to measure and, as I see it, profoundly inefficient.

If you want to regulate, you ought to regulate, but lawsuits based upon a so-called fraud or misrepresentation are much better served if there is some kind of regulatory aspect, instead of just running to the courthouse and asking for a jury getting \$25 million per case. You know better than I, there is sort of a plateau where that is coming about.

But I also would tell you, in case you have not heard, the ABC, the Business Conference which you helped found, the hundred fastest growing companies, in their recent polls, said this is one of the most important issues facing fast-growing companies. They are saying such things as 75 percent stating litigation is affecting their ability to compete, and 26 percent saying they can't get people to serve on their boards because of the threat of liability.

Now I would just ask you in that regard, you've made a general statement regarding it that I think leads me to believe that you clearly understand this issue. Yet, you've got to protect the integrity of the system and you don't want to go overboard in this regard, but can we expect as we move through this, not with ref-

erence to Senator Dodd particular interest or a bill I introduced before that I'm redoing, but can we expect you to help us analyze and cooperate with us as we attempt to make some modifications to such things as the Federal rule at 10B of a class action lawsuit?

Mr. LEVITT. I certainly will work with you Senator. I am deeply mindful of this problem, of its implications and of its cost burden. You raised very important points, and as you spoke I was thinking about all of the issues that bear on what it is that keeps our system straight, protects the American investor and insulates him or her from the kind of chicanery that from time to time assails the marketplace, and it's a complex answer. It's a combination of the self-regulatory mechanism, which is vital to the system, the oversight of the SEC and its abilities in terms of the enforcement area.

That protection of the investor is my first and my foremost concern, and the use of the courts historically has been a threat to would-be wrongdoers. You point out that it's sometimes an inefficient and a costly threat, and I think sometimes that is certainly so. And I also wonder whether or not we can use the judicial system more comprehensively to turn around spurious litigation and whether the judges of America are doing all that they can do. It's a complex issue, and I think that clearly we play a role and clearly you play a role, and clearly the judiciary plays a role.

So I commit to you as one who has experienced the pain and the cost of this kind of litigation that I would like to work together with you to try to come up with a rational solution.

Senator DOMENICI. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Domenici.

I have a number of questions that I'm going to ask you for the record, and Senator Dodd and Senator Domenici may have other things that they want to follow up with you. I'm going to raise two now and then I'm going to give you a series of detailed questions that are important that we have a record on and have clear answers from you on. So I'll do that at the end of the hearing today.

I want to follow up though on a point that Senator Domenici made a while ago, and that is we're all conscious of this enormous disintermediation that's going on where in the low interest rate environment a lot of savers are taking their money out of insured bank accounts and other places like that and they are moving them into either the stock market through mutual funds or through individual stock purchases.

I'm more concerned about the mutual funds and I'm more concerned about the degree to which people may think they have an equivalent insurance system underneath them that in fact may not be so. We know that with Federal deposit insurance that we've stood by that and that is a Government obligation.

But I want you to talk a little bit about the SIPC system. Given the huge buildup in investments in stocks today and the fact that price earnings ratios are near historic highs as we look at these swings over time, how strong is the SIPC insurance system? Tell us a little bit how that works and to the extent it was ever really severely tested what would be involved there?

Mr. LEVITT. Senator, I will submit to you a written response in terms of the present status of SIPC, but I would say to you that,

in terms of the industry as a whole, firms are better financed today than before, but firms also have exposures that they never had before in terms of derivative products which in some cases represent leverage on leverage.

The way to handle over-the-counter derivatives is through a subsidiary, and I think we have to look into those subsidiaries very carefully in terms of how they impact the overall ability of the parent to meet its obligations.

I am not prepared to say at the moment precisely how SIPC interfaces in terms of all of the financial services being offered in this country, and I would ask that you allow me to answer that question in a written response within the next 48 hours. (See Q.10. and A.10.)

My general feeling, however, is that the securities industry is better capitalized than ever before and is better regulated than ever before. I think that, as long as the self-regulating mechanism is effective and comprehensive, the interests of investors will be protected. It's my mission to see to that and to call it to the attention of the Congress if I ever feel that we are running into jeopardy.

The CHAIRMAN. And to the extent that you had an event, and this is all hypothetical, but I mean you've worked this business from every vantage point so you're probably as skilled a person as we could put that question to—

Mr. LEVITT. I was there in 1987.

The CHAIRMAN. Well, we were here, too, in 1987. So we all went through that experience. I remember talking to John Phelan on the phone that day at the New York Stock Exchange and Leo Malamud at the Chicago Merc, and there was a point at which it was not clear that things were going to be contained in a orderly fashion, as you may well know.

Fortunately, we worked our way through that and we've done some things since to try to put some new safeguards in place with trip wires and other things, including higher capitalization levels to try to give us more of a margin to handle some kind of an abrupt swing in market sentiment and in trading activity.

Having said that, I don't know that we've ever really gotten up in the center of the radar screen a thorough analysis of the underlying strength of the SIPC insurance system and what would happen if you started to burn through the capital of a given major brokerage house or one of the players and what the interlocking relationships would be. I mean what are the backstops? If that happens and additional capital is needed in a short period of time, where might it come from?

Would the Fed, for example, feel the authority to intervene in a direct way, which it clearly would and does with respect to the banking system. I'm talking about big, you know, underlying structural issues of that kind.

Mr. LEVITT. I don't think there is any issue that is any more compelling today than the one you were just touching upon. In other words—What could be the impact of another episode similar to 1987? Are we better prepared for it? What are our backstops and how can we handle it? And I would say there are four areas where

there are improvements that have addressed this issue since that time.

They are: technology, in terms of the ability to process three or four times the amount of business that we could have handled at that time.

The CHAIRMAN. May I just stop you there. Doesn't that one though also have the potential to cut both ways? I mean you could maybe make markets more rapidly, but couldn't you in fact get a train of events going with such velocity and speed, partly because of the efficiency, that, you know, you don't have maybe quite the time to sort of take account that we've had before?

Mr. LEVITT. I think, hypothetically, that any increase in the ability to communicate and any technological increase represent certain risks, true. But where I think it's terribly important is with respect to our ability to understand what is going on. In 1987 our inability to communicate with one another except in the most primitive way made it impossible to know what impact one market was having upon another, what was going on at New York Stock Exchange and how well capitalized were the specialists on the floor of the AMEX.

Rules is a second area of improvement, and that's just one of many factors in terms of certain circuit breakers resulting from the recommendations of the Brady Commission. Up to now those circuit breakers have operated with reasonable efficiency. Thank heaven, we've never touched the major circuit breaker, and I hope we never will.

Experience is awfully important, knowing what to do, how to handle it, what's a real crisis, and where are the needs.

And, finally, communications between regulators and between marketplaces. I believe that the CFTC, the SEC, the Fed, the Comptroller of the Currency, and the Treasury must work intimately together both to anticipate this kind of occurrence and to know exactly what each of us will do in the event that something of that kind occurs.

I have learned in my years of working with the markets that no one can predict exactly how a market will operate, what its implications are, or exactly what its risks are. You ask for the backup. Probably one of the most fundamental backup mechanisms is the activity of the Fed.

But the critical question is when do you bring that into play, because if you fall upon the Fed too frequently, you lost the credibility of the system. It's totally meaningless and we can ill afford that.

I have in mind a continuing series of meetings between the various agencies that I've discussed to consider the backup plans that each of us have in terms of contingency planning to know exactly what we're going to do, how we're going to communicate and hope that we are better able to handle the situation than we really were then, so that I can assure you that we are better able.

I have learned from years of operating in the markets never to predict market direction, market velocity, and market stability. So I can't give you an assurance that nothing will occur.

What I can say to you is that I am mindful of the very serious threats that you highlight, and I will do everything in my power

to be able to dampen in some way the impact of any such occurrence.

The CHAIRMAN. It's interesting, and I won't burden the committee and the record today with going into this in detail, but when John Shad had this job that you're now here to take we had a discussion about this back pre-1987 where in the course of the exchange in this room I asked him the question of whether or not we could have an event where say the stock market could go down in the averages, say 500 points in one day, and that was the hypothetical I addressed to him, and his answer now makes very interesting reading because he couldn't foresee really any circumstance under which that could happen, and of course before too much more time had passed it went down 508 points in one day. So we had the events and now I have that experience to take a look at.

I want to read what you will give me with respect to the answer that you've just committed to with respect to details on your sense for the SIPC insurance operation.

Mr. LEVITT. Yes.

The CHAIRMAN. One other thing, and then I'll yield to Senator Dodd here and then we'll finish up with you, and that is this. Should banks, in your view, be in the securities business?

Mr. LEVITT. Banks are in the securities business. I think we've adjusted to that circumstance reasonably well. I'm concerned that the protections, the firewalls—the so-called firewalls—between banks' lending activities and banks' underwriting activities be high and strong and firm.

So again I must call to all of our attention the fact that the system is extraordinarily resourceful and resilient and the doomsday scenarios that many of us anticipate are the ones that don't occur. But the banks' involvement in the securities business I think has been handled with reasonable discretion.

I am mindful of the importance of protecting investors in this regard, but I think we're on the right track. So I don't have a problem with what I've seen thus far.

The CHAIRMAN. Given the strong and high——

Mr. LEVITT. And thick.

The CHAIRMAN.——And thick firewalls.

Mr. LEVITT. Yes.

The CHAIRMAN. Well we'll talk more about that at another time. Senator Dodd.

Senator DODD. Thank you very much, Mr. Chairman.

Let me just pick up on the last point the Chairman has made. I mean it's not secret today that they're selling in bank lobbies mutual funds, and you've noted the explosion of activity in that area. I think in my opening comments I made reference to \$20 billion over the last 5 months, some number like that.

I'm concerned a bit about, you know, you're looking at elderly people in many cases who are watching interest rates drop, they're looking for higher yield instruments to pay health care bills and the like, and they're used to feeling pretty confident and they have every reason to believe that they're in fairly good hands when they go to their local banker. But all of the sudden the local banker is dealing in a product line they are not terribly familiar with necessarily or the people who are marketing them.

I wonder if you might just comment on whether or not that's a matter we ought to be concerned about, that the SEC ought to be concerned about or are you relatively comfortable with the fact that this is going on and whether or not you've got proper oversight of people engaging in those activities.

Mr. LEVITT. No. I think your concerns are absolutely legitimate, Senator. Whenever you have a proliferation of new products, you run into the problems of whether the purveyors of those products, in their anxiety to get on the bandwagon and move the merchandise, are mindful of its suitability for the investor.

And with respect to the banks and mutual funds, I think it's essential that investors understand that a mutual fund represents a risk that a bank deposit does not. The mutual fund is not insured. I think it's essential that the investor understand that the bank doesn't necessarily stand behind that mutual fund. It's a separate enterprise.

So the question of disclosure, the question of the kind of information that goes to the investor, is critically important, and there has to be a balance here. I am greatly concerned about the fact that if we take a disclosure document and burden it unduly with materials and warnings and so forth, it becomes useless to the investor.

Senator DODD. You're preaching to the choir on that, I agree with you.

Mr. LEVITT. The efforts of the Investment Management Division of the agency, which I think is one of the most creative and able divisions has been to seek greater clarity and simplicity in mutual fund disclosure.

I think this is part of the mission of the agency, and it's something that we've got to be so careful of because we're talking about people who can ill afford to lose what they risk losing. The billions of dollars invested in this area immediately signal concern, caution, watch it.

Senator DODD. I appreciate your response to that. You've answered I think to my satisfaction the issue I raised about the regulatory process, and even to some extent sort of the vision of the future and the studies that are being done, and obviously we'll hear a lot more about that as they are finalized.

I would like to come back to the point that you've raised, and I thank you for bringing it up. Everyone seems to say this, however, at all the hearings, and I'm not suggesting that you take it any less seriously than other people who have brought it up. Chairman Breeden I think tried.

I mentioned earlier what an abysmal record there was in terms of the coordinating activities during the previous administration, and I don't want my comments to necessarily reflect the overall job I think Chairman Breeden did. I think he did a very good job as Chairman of the SEC. But we sat here and listened at this very table from people who ought to have been working together fighting with each other over issues that should have been resolved or at least a good part of them resolved before they ever came to us.

This is a good example, maybe, the last question we're talking about, that the way of resolving that is to see to it that those that are responsible, the FDIC or others in terms of what's being sold

in the lobbies of the institutions they have the responsibility of regulating could be coordinated in some fashion.

I just want to emphasize that point over and over to you, if I can, and that is what can be done to see to it that the Secretary of the Treasury, the Comptroller of the Currency, the Fed, your office and other related agencies have some mechanism by which you do coordinate activities, and the CFTC obviously you've mentioned.

There has been a suggestion raised, and our colleague, Senator Moseley-Braun raised the issue that has been raised by the Merc, and that is this sort of super-agency. We had a chart here one day raised by my good friend, Jack Sandner, a rather colorful chart here describing how all of this would happen and work, and there is an appeal to that notion I guess in all of us to try and coordinate activities in a way, but there are some obvious pitfalls.

One way we may avoid trying to get to the super-agency approach is far better coordinating activities. Now I don't know if you've got any specific thoughts today on how that might happen beyond your making phone calls and trying to sit down and everyone seems to be busy. One more meeting is the last thing anyone wants in this town. One more coordinating group is enough to drive you to distraction.

And yet the fractured situation as it presently exists seems to have gotten us into trouble in the past, and we've got to come up with a better way of resolving it.

Mr. LEVITT. Well you're quite right. It seems as if any effort to bring about a sensible non-redundant regulatory mechanism has been like merging Israel and Syria.

Senator DODD. You be careful now. You know, there's talk out there.

[Laughter.]

Mr. LEVITT. I'm not overly sanguine about our abilities to accomplish what I think should have been accomplished. You dealt us a hand, and I've inherited a system and a series of regulatory mechanisms, and I will work with them as best I can. I think in any situation of this kind the commitment of the responsible people to work together and try to understand one another is terribly important. Their personalities are important, but I think you as overseers have got to nudge the process because you put your finger on a central weakness in the whole system. It's a weakness, and it's a cost area.

I don't know that any one plan of consolidation is any better than any other. All I would say from my experience is to take it step by step rather than to try to cure all of the problems. You know what they are. What I'm saying is that, if it is appropriate to deal with five or six different agencies, I'll use my best efforts to do that because I think the stakes are so great.

Anyone who was around in 1987, anyone who picked up the telephone and talked to the head of an exchange or a floor trader or an investor who had seen his assets deteriorate by as much as 50 percent within 24 hours will never forget that experience. So, if that's nudging the process in terms of a commitment to try to do whatever we can to prevent a reoccurrence or to soften its blow, I think we'll do it.

Senator DODD. Last let me touch on something that our former colleague, Jack Heinz and I worked on and really got something underway and, unfortunately, his untimely death sort of stopped a bit of our activity in this area, and that was the international issues.

I happen to be a strong supporter of the idea of having foreign issues being listed on our exchanges. Now I realize there are some legitimate issues about accounting practices that need to be addressed, and maybe others have heard me say this so often they'll be tired already of having heard me say it, but I'm going to repeat it again.

I don't like the idea that we lose market share in shoes and textiles. I wish we could throw market share out of this country globally and in area of manufacturing one could think so, but I accept the notion that labor costs and a variety of other things are changing in those areas.

One area that I will not accept that we lose market share is in financial services. We have a complete failure of our generation and our watch in Government if we allow that to happen. There will be a dreadful indictment of us, and there should be if we lose market share in the global marketplace in financial services.

And I would hope on your watch, and we've done a lot of talking about this, and again Chairman Breeden has done a lot of work I think in trying to expand this. I know there has been an opening up of exchanges in Europe, and Mexico has one, and they're really pursuing that, but we've got to pursue it far more vigorously, in my view. We've got to come up with some answers to these accounting questions if we're going to keep a lot of that business on our shores, and we should.

It's not going to stay here. A lot of it's already leaving for obvious reasons, but if we fail in this area I think it will be a dreadful indictment of those of us who sit on this side of the table and those who sit on that side of it.

I would hope you would make this one of your top priorities and invite those of us in Legislative Branch to work with you. I presume there is a role for us here to see to it that on your watch as Chairman of the SEC that we move aggressively to see to it that the global marketplace is opened up and that America invites the world to come to its shores in terms of dealing in our markets.

So, again, I would ask you to comment on it generally. I don't expect you to have some formula in front of you today as an answer, but as chairman of the subcommittee in the securities industry I feel very strongly about this issue. Jack Heinz and I both did, and in fact took a trip to Europe and met with our counterparts over there. As the European Community has been emerging in fact there was an effort to shut out our securities industry from operating in Europe, and we successfully turned that around.

But I would like to see that issue revitalized, re-energized and I would love to see the SEC take a more aggressive and active role in inviting us and the Legislative and Executive Branch to come up with some answers on how we might do as much as we can to guarantee America's role in the global market.

The CHAIRMAN. Before you respond let me, if I may, just add a point. Senator Garn before he retired from the Senate and I

worked together on a major piece of legislation called Fair Trade in Financial Services, particularly to the barriers, the unusual unfair barriers we face with Japan, but it's broader than that.

I think it goes directly and sort of dovetails with what Senator Dodd has just said, and there is a very strong bipartisan history of support and concern in this area on this committee and in the Senate as a whole. We've passed these items before in the full Senate, and I just want to underscore the importance of what he has said, because we need some vigorous advocacy to get the kind of open opportunities that we accord quite readily here, to get those abroad and we've not had that, and this is something where we stand to gain and there is a broad national gain if this can be done.

Mr. LEVITT. Well I totally agree with you. Those of you who have known me for some years know that I'm a competitive personality, and the standards by which I will measure my own performance in terms of the stewardship of this extraordinary agency, among other things, as I said in my opening statement, will be our ability to grow in terms of having a marketplace which will attract the best companies from all over the world.

And if I look back 4 or 5 years from now and see that the number of international companies coming to our shores is fewer than what I inherited, I will have regarded my term, regardless of anything else, as a failure. So I certainly will commit myself to doing all in my power to avoid that.

Having said that, I would observe again that the question of balance is terribly important. For us merely to say that we will diminish our regulatory standards in an effort to market foreign listings compromises the interests of our investors who would be burdened with a dual standard for domestic and foreign companies.

Second, the very fine domestic companies that have complied with the very rigorous historical standards that are required today would legitimately say we can't do this if you're not requiring this Swedish company or that Mexican company or this Indonesian company to have the same kind of disclosure. So that creates a problem.

But I believe the answer to the problem again is demonstrating to our international counterparts that there is a reason that our market is the best in the world. It's the toughest, it's the best regulated, and it's the most comprehensive. History tells us that that pays off in terms of people willing to bring their dollars into such a market, and I think that message is beginning to come across.

If you look at a chart of the number of companies coming to this shore and the number of companies going to other major stock exchanges you will see that we're doing astonishingly well. I believe that the process of tight and fair and reasonable regulation in and of itself will bring companies to the United States.

There are probably not many people in this country who have had more experience at marketing listings than I've had, and I intend to get this message across internationally and to do all I personally can to attract companies to our shores. I think a lot of this relates to what the attitudes of other regulatory bodies are.

Senator Riegle, you made a very important point in terms of Japan. The argument has been made that Japan has been inhospitable to U.S. investors and U.S. firms. Recently the acting head

of our Market Regulation Division and the head of our Office of International Affairs traveled to Japan and discussed the problems with the Ministry of Finance and came up with a rational solution which I think offers us some hope for the future.

I believe that there is an area of consensus thinking that is possible here in Japan, Germany, and London and all the major markets in the country. Because of globalization of our markets, I believe we can demonstrate to those marketplaces that tough, fair, and rational regulation makes sense for them.

Now that doesn't mean we're not going to have to make certain adjustments or compromises, and the Commission has already done that in a number of areas to bring in superb companies that never before would have considered listing here, and I think we've got to do some of that as well.

So I share your concern. It is a major mandate that I intend to take responsibility for, and I hope we can accomplish the goal without compromising one single bit the protection to the American investor, which is my primary mission.

Senator DODD. That's a very good statement and I agree with it. I don't think it was used in the context of this particular issue, and I forget which Chairman of the Fed used it, but I certainly consider myself a fairly competitive person, and I think most of us are up here, but competition in laxity is not something I endorse. He used it in the context of another issue, but none of us want to see, as some would advocate, that we try and reduce to the lowest common denominator a regulatory scheme that would jeopardize the consumer or investor confidence we've seen demonstrated in our markets historically.

So I would not want the record to end on this particular note having pursued and will continue to pursue the issue of the globalization of markets to reflect any desire to see us compete, if you will, in laxity in our regulatory structure.

There are some very legitimate issues about accounting that have to be addressed in this area, but I think there are some threshold questions which many people still have difficulty with, and that is the fundamental issue of whether or not foreign issues ought to be listed, and I'm just telling you from my standpoint that I don't think we ought to debate that any longer. I think they should be listed.

Mr. LEVITT. I completely agree.

Senator DODD. Now how we do it is another matter, and I'm glad to hear that you endorse the concept.

Mr. Chairman, I thank you.

Congratulations.

Mr. LEVITT. Thank you very much, Senator.

The CHAIRMAN. Senator Domenici.

Senator DOMENICI. Thank you, Mr. Chairman.

I'm sure you know these numbers, but I associate myself with Senator Dodd's remarks about mutual funds, and I appreciate your answers regarding the whole situation.

But just let me give you one for the record that I happen to have here. The mutual fund industry in recent years has had an explosive growth. The industry's 4,006 funds have over 38 million inves-

tors, 70 million accounts with \$1.7 trillion in assets. Now that's one fact.

But the other fact that is very, very interesting and should be of concern as you look at this is that in April 1993, \$100 billion in certificates of deposit matured. That's 18 percent of the entire CD portfolio for everybody, and 40 percent of the new money that came out of that went into mutual funds. Forty percent came out of CD's.

Now that means that people who are used to having a firm, fixed, regular return are now gambling because 3.2 percent is not enough on the CD or 4.1 percent or even 3 percent of late, and I'm very concerned that everybody understands this is not a CD, and that's my own layman's way of saying this is a red flag that's pretty serious.

Having said that, I really agree with the Senators on the other side who have just said that we've got to have coordination between regulatory groups with reference to the major areas where we might once again have a Black Monday. I think it was a Monday. Didn't we call it that?

The CHAIRMAN. Yes.

Senator DOMENICI. I think we called that 1987 one Black Monday. And frankly from this side, and I think I can do this without fear of my ranking Member not being here, we surely want to cooperate in an effort to see that this coordination gets done. It's very hard for the Executive Branch to do this, Arthur, you just can't imagine.

I mean we have situations where HUD won't get cooperation out of Health and Human Services because Health and Human Services has forever been delivering services and HUD has been delivering housing. So if the time has come that you ought to be doing both together you really have to pass two programs, one for each one, and this kind of thing is happening, you know, in many parts of Government and I hope you will be firm and let us help, too, in trying to get that together.

My last observation has to do with the banking system, and I would think you would agree that small business America, which used to borrow money to grow on, is having a very difficult time getting money from banks, commercial banks. I'm not going to beat up on the banks at this point. I mean there is plenty of blame to go around. The regulatory entities have been very tough on the banks, too.

But I think there are two areas we really ought to be moving ahead in that do come from the regulatory side and somewhat from your side, and that is a secondary market for small business loans. I think that is a very exciting new approach to bundling and getting that risk spread across much larger groups and thus relieving our banks from their inhibitions to lend money because they carry the whole portfolio.

And, second, the real estate market, while it is frequently thought of as being kind of a privileged market, it has a big impact on America when it remains in the doldrums. It has a big impact on the banking industry and it has an impact on jobs, and frankly I think the evolution of the secondary market for real estate loans is another exciting area. The street is developing it on their own, as I read, and I don't know enough about it, but it would seem to

me that that's another area that should concern you as we try to be helpful in that regard, because I think both are just an acknowledgement of a modern need as compared with even 15 years ago.

I want to thank you for the things you have said here today. I'm even more impressed than I thought I would be, and I look forward to working with you, and thank you so much.

Mr. LEVITT. Thank you, Senator.

The CHAIRMAN. Thank you, Mr. Levitt. We appreciate your responses today. We will be submitting to you a number of questions to answer for the record, and we hope to move ahead just as quickly as we can.

Mr. LEVITT. Thank you, Senator.

The CHAIRMAN. Let me now invite as some leave and others come forward, let me invite our two nominees to the President's Council of Economic Advisers, Alan Blinder and Joseph Stiglitz, to come on forward and get seated. We'll start in just a minute.

[Brief recess taken in place.]

The CHAIRMAN. Let me invite our next nominees to come forward as readily as they can.

In an effort to accommodate the nominations of the administration we are trying to move forward as rapidly as we can. So that necessitates batching some of these nominees on the same day in order to facilitate rapid movement. So I know my two nominees at the table now understand that and realize that that is actually a blessing in disguise to keep things rolling forward here.

The committee now turns to the two nominations for the President's Council of Economic Advisers. Both individuals, Alan Blinder and Joseph Stiglitz, are exceptionally well qualified for these important positions, and that has been said by others who have made introductions in their behalf.

The Council of Economic Advisers for the President has responsibility for advising the President on his national economic strategy and policies and the economic implications of all the other policies.

Certainly the condition of our economy is the No. 1 issue in the eyes of most Americans, and rightly so, and I think is really at the center of the event of last fall where an incumbent President was voted out and a new President was voted in presumably to try to improve the economic performance of the country. There were other issues involved, but I think by almost all analysis the economic situation and trend lines and projections for the future was clearly the overriding issue.

There are a lot of reasons for that. It has now been more than 3 years since the last recession began, but there has still been little meaningful sustained recovery of the kind that we normally associate with the end of a recession looking back over recent history.

Generally speaking, the recent data releases that we have seen on the economy have not been terribly encouraging. For example, the Labor Department has reported that the unemployment rate bounced back up to 7 percent in June. Our trade deficit has been widening sharply as export growth has been stymied by increasing weakness in the European and Japanese economies, and despite increased affordability with record low long-term interest rates, new home starts and sales have shown little significant improvement in recent months.

Just a few days ago the Council's Chairperson, Laura Tyson, announced that the administration has lowered its forecast for economic growth this year to 2½ percent, a rate that can hardly be expected to have much impact on bringing down the unemployment rate.

The administration has focused considerable attention on reducing the Government's budget deficit as a key to long-run growth, and I think rightly so, but the near-term effect of cutting the deficit may in the policy actions associated with doing that may well have the effect of creating some additional weakness in the economy at least short term.

So I'll be very interested to hear today how confident the nominees are that the economy will begin to pick up soon and to hear any policy recommendations they may have toward that end.

There is one area where I believe we have to make progress that is clear and discernible, and that's in the area of trade. It appears to me that the President has made progress in both bilateral talks with Japan and in the multilateral Uruguay Round, although more of the fine print has yet to be analyzed, and I congratulate the President for the leadership in that area and for the advances that appear to have been made.

The Council of Economic Advisers is necessarily involved in preparations for these discussions, and I understand, Mr. Blinder, that you were in Japan with the President. So I will be interested in hearing any views that you have on the progress there. Both nominees have excellent backgrounds and talents for serving on the Council.

Alan Blinder has been a Professor at Princeton University for more than 20 years specializing in macroeconomic policy issues. He had received numerous professional awards and has testified frequently before congressional committees, including of course this committee. He has also been a columnist for Business Week, the Washington Post and Newsday.

Joseph Stiglitz has been a Professor at Stanford University for the past 5 years. Before that he was for years a colleague of Professor Blinder at Princeton. So the two of you are certainly not starting out as strangers.

I hope, by the way, that you do bring separate and independent views because we don't need to double up on one set of views on the Council, and I'm sure that you will differ in certain areas.

Professor Stiglitz has also received numerous honors and has written on a very broad range of topics, including the effects of taxation uncertainty and information asymmetries on the functioning of markets, income distribution and on growth theory.

Between the two of them our nominees list some 46 pages of separate publications. So they are certainly prolific on the writing side and are much read by other serious scholars and on-lookers for their views.

Let me yield to Senator Domenici for any opening comments, and then I'm going to give the oath to both of you and invite you to make your opening comments.

Senator DOMENICI. Mr. Chairman, I merely wanted to indicate that I have had an opportunity to speak with both nominees for what I greatly appreciate on their part a rather extended amount

of time. I frankly from my standpoint enjoyed the discussion, and I hope they did. I am not sure that we arrived any great conclusions, but I want to state for the record what I discussed with them very briefly.

I think the recovery of this economy from the standpoint of producing jobs, going from a jobless recovery to one that is producing significant new jobs, is almost exclusively in the hands of the small business men and women of the country. I don't think for the next 10 to 15 years that it's going to be big business America adding scores of new jobs.

I guess the issue that bothers me the most is what are we trying to do short term to help small businesses employ Americans. There is a patent deficiency, in policy today, in the economic plan of the President getting political rhetoric, and a myriad of approaches that I could oppose.

The question that really does bother me is, will it produce jobs since it does nothing to help small business, while deficit reduction is a long-term item. You're absolutely right, it's not going to anything tomorrow morning or next year even.

I clearly believe there are things we aren't doing. I won't be here because I have a meeting of the banking members on our side, but I leave that for the record. If they choose to answer it in their remarks, fine.

The CHAIRMAN. I'll put the question to them myself.

Senator DOMENICI. I thank you. I think the President actually has a few more positives in his economic plan regarding this than the Congress is going to give him. But looking at the overall, I think there is a destimulating effect out there right now because of fear, because of health care costs and because of taxation fears. I don't think those fears add to the ability of average small businessmen to go out and hire people.

And I think on the facts side this is shown by an enormous increase in overtime working hours, and although it hasn't continued to grow, an enormous amount of temporary employment, which is predicated upon business being very fearful of hiring new people because of the costs.

So I leave that for the record, but let me assure you that based upon what I have learned I am here to tell you I'm going to support you and hope this goes through quickly rather than slowly both here and on the floor. The President is entitled to have the three members there. Some of them take way too long, and that's not part of my doings. As the Chairman will tell you, I don't participate in either helping the FBI, which seems to take a long time, or in delays on the floor.

Thank you very much.

The CHAIRMAN. I would say, Senator Domenici, that you've been very cooperative at every stage with respect to nominees, and that's much appreciated by me.

Senator DOMENICI. Thank you.

The CHAIRMAN. Gentlemen, let me just say as a follow-on to Senator Domenici that I think we're into sort of new economic territory and have been for some time, and I say that as one who studied economics in a serious way at the University of Michigan and at Michigan State and at the Harvard Business School. So I've de-

voted a fair amount of time in the classroom and otherwise to try to understand how this economic system works.

In representing the State of Michigan, this being my 27th year, you have to deal with the question of what is the structure of our economy and how does it fit together and how does it work and how does it fit into the world economy, and I have to tell you frankly that I have not found most of what I've gotten from the economics profession in recent years to be terribly helpful.

I say that because I think sometimes there is a tendency to be wedded to models that everybody is familiar with and to relationships that people are comfortable with. I'm talking about historic economic relationships that may be changing so fundamentally that what happens is that a lot of what passes for sort of established wisdom and knowledge becomes sort of uberous and sophistry and it's terribly helpful.

Now I don't mean by that to sort of deliver some kind of veiled negative commentary on the two of you. I think you come forward today as two of the most respected economists in the country, and I'm delighted that you're willing to serve.

What I'm saying to you is I have not found that the net output of the profession as it's sort of working its way here to the Congress and to this committee particularly has been terribly helpful to us, and I think it has not done a very good job of defining the nature of the new problems that we face on a global basis or have helped citizens understand why it is they are caught in all these rip tides that they have a very hard time coping with and understanding.

I am so struck by the fact that the New York Times for one has been doing a series of running polls on whether people have confidence about the path we're on in terms of the economic future, and it has changed very dramatically in the last few years.

And I think that in a sense is a report card on a lot of things. I don't say it is on economic theory and economic advice, but clearly the American people are coming to the conclusion that they cannot have as much confidence in the economic future as they would like to have or they have had in the past, and they are reflecting that in margins of 80 to 85 percent. It's stunning and it's a very worrisome thing because I think that in itself becomes a retardant in certain ways to a stronger economy when people that kind of apprehension.

At the University of Michigan today, which is by any definition a flagship national and international university, a large number of our best graduates are coming out with straight 4 points and a lot of extra curricular activities to their credit, a lot of family and personal sacrifice to get through 4 years at Ann Arbor or one of the outlying colleges, and are finding that they can't find work. And after a fruitless job search many of them are moving back in with their parents. They can't understand it, and their parents can't understand it, and there is a growing feeling of disaffection about what has happened.

I'll give you one other illustration because I want your remarks to be in this context today. I grew up on the industrial east side of Flint, Michigan, which is a place where General Motors started many years ago and where the sit-down strikes by the auto work-

ers also took place. So we have a very rich history in terms of the beginnings of the industrial foundation of this country.

I visited the old neighborhood that I grew up in 55 years ago when I first arrived and, you know, spent the first 20 years of my life in that neighborhood, and at that time all the workers in that neighborhood essentially worked at the Buick Motor Plant and walked to work. There wasn't a lot of income in dollar terms or real terms in the neighborhood at that time, although I don't know that people felt as poor as I think in many respects we were.

But I was so struck the other day when I went back to the same neighborhood, and down on the intersection of Franklin Avenue and Dakota Street, which is five houses from where I lived there is now on that corner an all-night laundromat, which is a new addition in the last few years, and the reason it's there is that a very large number of the people in the neighborhood can't afford to own their own washing machines, and that's different from 40 or 45 years ago.

Even back at that time when nominal incomes and real incomes were quite modest as we think of them, nevertheless people had enough wherewithal to have a Maytag washer in their basements and be able to do their laundry in their own places as opposed to have to sort of trot down and do it at a commercial place on the street corner.

To me it was just one illustration of the backward slide that has been going on for about two decades, and real income for so many people in this country that's masked in part by two wage earners. Now we all know this. You know it, you've written about it, you've studied it, you talk about it and you're presented it in class and lectures and so forth.

We need to make sense out of it in a way that the public understands, and we're at about a 1 on a scale of 1 to 10 I think in terms of really figuring it out and presenting it in a sensible clear and compelling way so that people understand why the ground is washing out under their feet and what they can do about it.

Not just industrial working class neighborhoods, but even people and families that have invested 4 years at Stanford or Princeton or the University of Michigan are finding that first-cut graduates are coming out and finding that nobody really wants them now, and it isn't just a temporary phenomenon. I wish I thought it were. I mean I think it's more than that.

So what I would like today is I would like you to talk about, you know, what is this set of economic changes and dilemmas that are confronting us, what do you draw from that, what can we do about it and how do we get hold of our economic fate and start to strengthen our economic performance, get on an improving trend line and in turn have more public confidence as a result of the fact that we're doing better. How do we accomplish that?

I mean to me the job that you're taking is that whatever you say in words orally or on paper to the President that is off that topic probably isn't going to be worth much. What you have to say to the President on that topic can be of enormous value to the country and it's the thing that is most needed.

So having said that and sort of giving you a way to try to I hope focus your comments and remarks, let me ask you both to stand as I administer the oath to you.

[Whereupon, Alan S. Blinder and Joseph E. Stiglitz stand and raise their right hands, and the following oath was administered by Chairman Riegle:]

The CHAIRMAN. Do you swear that the testimony that you're about to give is the truth, the whole truth and nothing but the truth, so help you God?

Mr. STIGLITZ. I do.

Mr. BLINDER. I do.

The CHAIRMAN. Do you agree to appear and testimony before any duly constituted Committee of the Senate?

Mr. BLINDER. I do.

Mr. STIGLITZ. I do.

The CHAIRMAN. Very good. Let's just go in the order in which you're seated there.

Mr. Blinder, let me again invite you to acknowledge anybody that is with you, and, Mr. Stiglitz, when your turn comes as well, and then go right into your statement and then we'll go to questions.

STATEMENT OF ALAN S. BLINDER, NOMINEE FOR THE POSITION OF MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. BLINDER. I have my wife, Madeline, behind me.

The CHAIRMAN. Welcome.

Mr. BLINDER. And that's all. The rest of the Blinder family is scattered to the four winds.

Mr. Chairman, I'm honored to appear before this distinguished and important committee today as a nominee for President Clinton's Council of Economic Advisers.

As you know and alluded to, the Council is a purely advisory agency, but its purview extends across every single economic issue dealt with by the administration. That's a vast area of responsibility, and with only a three-member Council, each member gets spread pretty thin and is forced to be something of a generalist. I believe that my entire professional career has prepared me for this role.

I was born in New York and attended Princeton University. After graduating Princeton with an AB degree in economics, I attended the London School of Economics for one year, and then got my Ph.D. at MIT.

In 1971 I began teaching at Princeton, and I have lived and worked there every since, except for interruptions by a string of sabbaticals. I sometimes joke that 22 years on the same job at Princeton proves either that I can hold a steady job or that I'm in a rut, and it probably proves both.

My academic specialties have been in the areas of macroeconomics and income distribution, though I have also written on a variety of other subjects, including labor economics, business pricing practices, and recently the structure of the Japanese economy. My work is a blend of empirical research and theory with a more practical bent.

As you know, I've been an active sideline participant in many economic policy debates for many years, and you alluded to these things in your statement. For about 4 years I wrote a monthly column in the Boston Globe and then after that, for almost 8 years. I wrote a monthly column in Business Week from which I resigned last December when I went to work on the Clinton transition.

I have testified before various congressional committees, including this one, 18 times since 1980 on a wide variety of public policy issues, but mostly on macroeconomic topics, which will be my specialty on the Council if I'm confirmed.

I served as an informal economic adviser to the Clinton campaign in 1992, but my only previous Government service came in 1975 when, as Senator Bradley mentioned this morning, I served for a few months as a Deputy Assistant Director at the Congressional Budget Office in the early days of that agency.

And I'm personally delighted now by the prospect of turning from sideline kibitzing about policy, which I've been doing for 12 years, to actual formulation of policy which I needn't tell you is a great deal more difficult than that.

As you said, Mr. Chairman, economics, and especially academic economics, is often criticized for being aloof and arcane and far removed from the day-to-day concerns of ordinary people. There is truth to that criticism, though I think there is also a tendency to exaggerate it.

My view has always been that a social science ought to be devoted to the betterment of society, but that a social scientist ought to go about his or her business in a scientific way.

I'm fond of quoting Keynes, who wrote the following description of what he called the master-economist, and I'll read an abbreviated version. He said:

The master-economist must touch abstract concrete in the same flight of thought. He must be purposeful and disinterested in the simultaneous mode; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.

No doubt I, like most economists, fall a good deal short of that ideal, but it's something that I always think of and hold up as an ideal to be striven for, and I think it encapsulates in a very nice way the ideal role of the Council of Economic Advisers when it's doing its job.

Finally, I would just like to add a personal note of thanks to the committee. As you know, I've been working as Chief Economist on the Council since the very first day of the Clinton administration. So a great deal of time has elapsed between my arrival in Washington and this day, and I want to state on the record that zero percent of that delay was due to this Committee. In fact, the committee scheduled today's hearing almost immediately after receiving my final papers from the White House.

Mr. Chairman, it has been a long wait, not due to this committee, and I do want to thank the committee and you personally most sincerely for acting so expeditiously in scheduling this hearing, and I'm happy to answer any questions that you may have.

The CHAIRMAN. Thank you.

Mr. Stiglitz, let me invite you to introduce those with you, and then we would like to hear your statement.

STATEMENT OF JOSEPH E. STIGLITZ, NOMINEE FOR THE POSITION OF MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. STIGLITZ. Let me first introduce my parents who always talked to me when I was a kid about public service.

The CHAIRMAN. And now it's happening, the big time.

[Laughter.]

Mr. STIGLITZ. Yes, now it's happening.

The CHAIRMAN. Where are you here from may I ask?

Mrs. STIGLITZ. We're from Indiana.

The CHAIRMAN. I see. Well welcome. We're delighted to have you.

Mrs. STIGLITZ. Thank you.

Mr. STIGLITZ. And let me introduce my wife, Jane Hannaway.

The CHAIRMAN. Jane, it's good to see you.

Mr. STIGLITZ. And three of our four children, Siobhan, Julia and Ed. My fourth, Michael, is in California and wasn't able to come. So they are seeing American democracy working.

The CHAIRMAN. We're delighted to have all of you, and I'm especially pleased your parents could be here today as well as your children and wife.

Mr. STIGLITZ. Let me first thank you and the other Members of the committee for the warm welcome that you've extended to Dr. Blinder and myself this morning. I am pleased and honored to appear before you today as a nominee to be a member of the President's Council of Economic Advisers.

As you know, the Council of Economic Advisers was established under the Employment Act of 1946 which stated that:

It is the continuing policy and responsibility of the Federal Government to use all practical means to promote maximum employment, production and purchasing.

I believe very strongly in that commitment, and the role of the Council in advising the President and the administration more generally on the best means of achieving these and the broader economic objectives which are at the center of the administration's program.

At the time I was invited to serve on the Council, I was Professor of Economics at Stanford University, where I have been for the past 5 years. Prior to that, I was a professor at Princeton, Oxford, and Yale.

While my primary focus within the Council—if confirmed—will be on microeconomic issues, I have always attempted to look at economics from a more integrated perspective. At Stanford I have taught graduate courses in macroeconomics, microeconomics and the economics of the public sector.

Our country faces major challenges in almost every sphere of economics. We have created 813,000 jobs since the administration took office, but the unemployment rate remains stubbornly high at 7 percent and economic growth remains lackluster.

The deficit reduction package presents a major achievement. The bond markets have responded enthusiastically in anticipation of its passage, and the lower long-term interest rates have helped sustain our recovery.

While the immediate focus of our attention is on job creation, we must remain attentive to those issues which will determine our ability to compete in the long run, to our level of savings and in-

vestment, to the education of our children, and to the advancement of American technology.

Our economy faces problems not only with creating jobs, but also with creating good, high-paying jobs. The statistics concerning how badly our most poorly paid workers have fared during the past two decades are well known. These are some of the facts that you were referring to earlier, Senator Riegle. For example, the lowest decile of workers have seen their real wages fall substantially over the past two decades.

We need to come to an understanding of the causes of these problems and to formulate policies that ensure the creation of a steady stream of good jobs, and that all Americans have the skills that good jobs require. We must reform our welfare system to make work pay and to help move people out of poverty.

Our economy faces not only problems, but opportunities and challenges. The end of the Cold War provides us with an opportunity to redeploy our resources. The past quarter-century has seen marked changes in the economies of the world, including the growth of the economies of East Asia and increasing unity in Europe.

We are in the midst of establishing a new world economic order. Ensuring that the rules that govern that new world economic order are equitable, and ensuring that our economy has the strength to avail itself of the opportunities which this new order will provide, are high priorities.

At the Council, if confirmed, I will be concerned not only with these issues, but also with a wide variety of microeconomic issues, including those that concern particular sectors of the economy.

In concluding, Mr. Chairman, let me express my gratitude for your scheduling of these hearings so promptly after the nomination papers were submitted to you. I would be happy to answer any questions you might have.

The CHAIRMAN. Let me start with the straight pitch right over the center of the plate, and that is coming back to my earlier comments.

I think the reason that Bill Clinton is President more so than any other reason is the anxiety and the apprehension about the economy and the perceived failure of the public of the Bush administration to do enough about it and people voting to take a chance for change in that area.

I also would assert that I think the Perot vote at 19 percent in a sense reflected that as well. So you had a very substantial margin between the 43 percent that Clinton got and the 19 percent that Perot got and the remainder that the incumbent President got, which was far short of what it took to stay in the job.

People were really voting I think fundamentally on this question about the economy, the economic direction, policy strategy, where are we and where are we going.

I would like you to as efficiently as you can give me a sense as to, you know, what is going on in the economy that is fundamental enough that has created the backward slide for so many people and this professed apprehension that people are stating over and over again about the economic future based on what they see happening in a whole series of events in their own economic reality. I mean

I think that's essentially what it's based on and their sense of what it may look like in the future. I would like to hear both of you comment on that.

Mr. BLINDER, why don't you start and then we'll go back and forth.

Mr. BLINDER. I'll be glad to, Senator. If you don't mind, I would like to distinguish between the short run and the long run in answering your question.

In the short run, we've been sitting for sometime in a rather languid economy and we still are. This is exactly the factor that you alluded to that was so instrumental in the 1992 election.

A good deal of the short-run job that we now face, that we have faced for the last few years, and we will continue to face, although things are beginning to get better, is clearing away what I would call the "financial underbrush" left over from the excesses of the 1980's.

It's summarized in a too-simple-way by a four letter word debt. That's too simple, but it captures the essence of it: consumer debt, business debt, and especially public debt.

Chairman Greenspan has referred to that many times as "headwinds" that have prevented the economy from really getting going in a forward direction, and I think there is a great deal of truth to that. That's why the President has accorded so much importance to deficit reduction as the first priority of this administration.

People have expressed concern that deficit reduction in a weak economy is potentially a risky strategy, and there is truth to that. The only thing I can say to that is it would have been better to have done it in 1990, it would have been better to have done it in 1988, and it would have been better to have done it in 1986. It wasn't done. It was still there. This gigantic deficit was still there when President Clinton took office at the beginning of this year, and there is some concern about how much longer we can wait before we crash into some sort of a financial wall.

That's the first priority, and it is also in an indirect sort of way a pro-jobs program. The first reason is what I said before: you simply have to get this financial underbrush cleared away if we're going to move forward.

The second and related is that—

The CHAIRMAN. But let me ask you this. Is that same thing as saying that once you get the financial underbrush cleared away that whatever needs to be in place to sort of get us back on a nice strong growth track, job creation track that's going to make people feel more confident is going to happen? I don't know that you mean to be saying that, but I think you need to say whether you are or aren't saying that.

Mr. BLINDER. I am, indeed, and I just wanted 10 seconds more on the short run, and then I'll talk about these long-run things that need to be done because you're 100 percent correct.

The last point I was just going to make is that at the point in history at which we have arrived here in July 1993, I personally fear the potential adverse reaction in the financial markets if the deficit reduction should fail at this point. I don't believe it will, but

I think that is the reason why that has to be macroeconomic policy No. 1 at this point.

The last thing I would note about the short-run is, as you well know, the administration did feel that the economy could use a small fiscal stimulus to cushion this process at the beginning, and for reasons that you're more familiar with than I, we didn't get it. I still think it would have been a good idea. But that's water under the bridge; it didn't happen. It would have been good if it had happened.

Let me now turn to the longer run. When we get the financial underbrush cleared away, what has to happen to create higher jobs, and especially better wages, and again I think the answer can be summarized too simply, and I'll amplify this in a couple of minutes, by one word. And that one word is productivity.

People earn higher real wages when their productivity grows. That's as close to a law of economics as we have. The past 20 years, as you mentioned, have been a period of very sluggish productivity growth and very poor growth of real wages and indeed at the bottom of the real wage pyramid an actual decline in real wages.

That particular phenomenon, the decline in real wages at the bottom, has several causes. Some have to do with education, some have to do with technology and some I think have to do with something also alluded to with international trade, which, while a good thing for the Nation, as in the 1980's, turned out to be a much better thing for people near the top of the income distribution than for the bottom.

The greater openness of the world economy has created a great deal more opportunities for people with the sorts of skills that are marketable in the world economy and have at the same time created a great deal more competition for people at the bottom that lack some of these skills. But I think it's very important as we work on this problem to bear in mind those people at the bottom.

So what needs to be done is fairly simple to state and not so simple to do. Productivity advances, first of all, when there is more capital formation so that each worker has more capital to work with. That's obvious and we know that it's true. Many people have criticized the United States for inadequate capital formation. The President has been anxious to provide incentives for business, as you well know.

The only other thing I would like to add to that is when people make the case for greater capital formation, they sometimes forget the public capital formation, and the United States has been woefully neglectful, I think, for several decades in the area of public capital formation. We have, in fact, allowed the ratio of public capital formation to GDP to dwindle more or less steadily. It has actually had some uptick in recent years, but over the last decade it has been dwindling, and this has been a neglected part of the capital picture, I believe.

The CHAIRMAN. Let me just stop you there, if I may. I think that point sort of presupposes that incremental improvements on the margin in job training and more capital coming in and lifting productivity, I mean again sort of the traditional model that we've always followed, that gets you something.

The question is are we caught in a vortex of circumstances where that on the margin gives you enough. I mean does that really capture this problem or is this problem much bigger than that and might this problem, if it is much bigger than that, be the fact that you've got an international economy that's not integrating itself in a new way and you've got these wage differentials. They're real wage differentials, but then you get an overlay of managed trade policies that, you know, further can cut against us if we're not dealing with them.

But I'm struck by the fact whenever I hear somebody talk about more money for retraining programs, and I'm sort of living out there where retraining programs happen and people go through two or three of them and still don't find a job, and I ready to start to strangle the next person that says the retraining program or even falls back on the notion that if we could just turn up the spigot a little bit more. I'm not saying you're saying this, but I'm phrasing a point to you, that you can turn up the spigot a little bit more and you get more job training or you get more capital investment because that's really all we know because we've defined the problem within a certain envelope. So we reach for the off-the-shelf answer and we say, all right, let's have an increment of this and an increment of this, and that will get us as far ahead down the road as we can.

I'm more and more of the view that we are caught up in a much more engulfing that are much bigger and stronger and adverse to us and that the incremental strategy is not going to work sufficiently, and not that you shouldn't sort of do some of that, but to sort of think that you've done and you've dealt with the problem to me is sort of like flatter thinking.

I mean I just don't see it working and I don't see the practical prospect of it working in part because we can't even get a piddling little \$16 billion stimulus in place. I mean whether or not I happen to agree with you, I voted for it, but the point is we weren't able to get it. But even if we had gotten it, you know, I think the question is of the degree to which that really starts to sort of lever us up a curve against these underlying factors.

So the thing I'm listening for and I want to hear at some point from somebody, and that is what is the larger strategy that deals with this larger collection of problems that seem to be kind of manifesting themselves at one time and in one place now, or is the answer that there is really not much we do about it other than the incremental on the margin, you know, things that past history has told us is the logical thing to do?

Does that capture the problem, or how big is this? I mean do you think I'm exaggerating in my mind the scale of the problem and, if I'm not, what becomes the larger way in which we capture it and really start to change it, or can we?

Mr. BLINDER. I don't think you're exaggerating the scale of the problem, but I wouldn't dismiss some of the old remedies having to do with capital formation, because after all that's how you embody new technologies, education, and even training for many reasons, including the following: in a world that changes this rapidly and in a world that is this open to international trade, people have to be adaptable. Workers have to be more and businessmen have

to be more adaptable than they were in the past, and old saws like education and capital formation do make a contribution.

The CHAIRMAN. And I agree with that.

Mr. BLINDER. I think the trick here, and it's easier to say than to do, is to make these things work for us rather than against us, so to speak, get ahead of the curve. And that's where you need a greater adaptability in the work force, flexibility in the work place, public and private capital that I mentioned before, and a good deal of attentiveness, more than we've given up to now, about what we're going to do to and for the people near the bottom. They have a great deal of difficulty adapting to these changing circumstances.

The CHAIRMAN. Let me go to your colleague.

Mr. STIGLITZ. Well most of what Dr. Blinder said I agree with, and maybe this is part of the groove thinking that economists are in, but the way we tend to approach things has a lot of similarity, and in that sense we complement each other.

There is an economist approach to a lot of problems, and in particular the dichotomization into the short run and the long run, and I think one of the problems we're facing right now is they're going in different directions. What we want to be doing for the long run is sometimes restricted by our short-run concern about the deficit. In the long run, we would like to be doing more investment. There are lots of things that I think we might like to do, but many of them cost money and the constraints of the deficit mean that we have to, in the short run, focus on a problem that is really vital.

Some of that interacts positively. The lower interest rates that deficit reduction has induced have provided the opportunity for more private investment, and that's a vital ingredient for creating jobs and for assisting the economy in its transition.

Let me talk though more about the long run because that was really the focus of your concern, and there is an interesting aspect that I might mention: I grew up in Gary, Indiana, which was an old steel town with an industrial base very much like Michigan I think. I've lived for the last 5 years and on and off for over the last 15 years in Silicon Valley, which has become the symbol if the dynamic aspects of the United States, and I go back regularly to Indiana to visit my parents.

On the one hand, you can see the problems of the industrial base of the United States, that certain industries have had a very hard time and there are people in those areas that have been affected. On the other hand, even in those areas, there has been enormous transition, and there is an enormous amount of dynamic adjustment that has been going on.

Even in an industry like the steel industry, which has had a large number of problems, there are very dynamic sectors, the so-called small mills or micro-mills. These have had enormous success over the last 15 years, and in that area the United States is one of the most efficient producers of steel in the world.

So the lesson that I want to bring out of that is that there is an enormous amount of change and potential for change. In the process, there are people who are affected adversely, and we have to have programs to worry about and to assist the people who are af-

fects in that process. One shouldn't just focus on the negative aspects, but also focus on the positive.

Now having said that, let me say that some of the aspects that I think you've talked about, and that Dr. Blinder mentioned, pose much greater challenges for the United States. The globalization of the world economy and the pace of technical change make life more difficult for American businesses, and they make life particularly more difficult for certain sectors of our economy.

It is a fact that real wages have fallen as dramatically as they have, and the lowest decile of prime age males has been their real wages actually gone down by more than 25 percent. That's a fact that I think you were reflecting in your story about the washing machines. I mean, those are real facts that show in the statistics and they have to be dealt with somehow.

But some of the underlying causes of that have, on the whole, represented beneficial opportunities for the economy. That is to say, the opening up of global markets has, at the same time, to give you one aspect of that, meant that American consumers have been able to obtain some goods much more cheaply than they otherwise could have, and as consumers they have benefited. The technology has created jobs in Silicon Valley that have benefited certain parts of our economy enormously.

So I guess what I want to emphasize is that you have to take this balanced perspective of the various forces. They have enormous strains, and at the same time, they have enormous opportunities.

Now one aspect that emerges is that it's going to require an enormous amount of adapting of our economy. It requires an adaptability, and that's why the investment in human capital and the education programs and the programs of school-to-work are all going to be very important.

The second aspect is that in this more competitive environment I think we won't be able to tolerate the kinds of inefficiencies that we may have had in the past. Included in that is that we can't tolerate inefficiencies in our regulatory structures that interfere with the efficiencies of particular sectors of our economy, and that we will have to demand more of the efficiency with which Government operates than we have in the past. So that is part of the consequences of the increased competitiveness of the world we live in.

The CHAIRMAN. If I may say, and we're all on the same team, so let me be very blunt here.

In 3½ years time if Clinton is not re-elected you fellows will both land on your feet because you're highly talented and skilled people and your universities will happily take you back or anybody else. People will be standing in line to employ you and your services and for good reason, because you're among the most talented people in the country.

The last Democratic President who was elected and who was in turn re-elected was Franklin Roosevelt. It doesn't happen very often because it's very difficult, and I can just tell you as somebody that has served under seven Presidents here during my time in the Congress that it's going to be difficult for Clinton to get re-elected in 1996, and he understand that, and of course we've got an election before that where the Congressional elections will have a lot

to do with what happens in the last 2 years of the 4 years of the Clinton administration.

I would suggest to you that the long run in terms of political economics, you've got 6 months of the 4 years that is gone now, and the last 6 months of the 4 years you can kind of write off because the dye is going to be cast by then. So you've got a 3-year window here.

And unless there is a very discernible improvement in our circumstances, and that I think has to lead back to strategy and choices and luck and chance being part of it as well, that anything that really looks much beyond that in terms of sort of ratcheting up both the growth curve in jobs, real jobs and not just for folks who were at the high end, like yourselves or in Silicon Valley or what-have-you, I think, you know, you'll be packing your bags, just as you're now unpacking your bags, you'll be packing your bags to go back to Stanford or go wherever, and somebody else will be coming in here.

You know, there will be a new Council of Economic Advisers that in due course, once they go through the clearance process, after 6 months of being bounced around, they'll be in here to give their statements.

I think the public desperately wants a very serious re-evaluation of additional new strategies that we can use that go beyond that I've just heard both of you say, which with all due respect is sort of textbook thinking. Now maybe that's the best we have.

I was listening to try to hear anything new and fresh, and maybe there isn't anything new and fresh. So I say that again as a caveat, but if you're saying it, I'm not hearing it. And it isn't just a question of hearing it, but the question is is there something more we can do in the real economy in real time to make a significant difference, because people are sliding backward.

Now they are not sliding backward at Stanford or Princeton for the most part, and that's part of the problem. I think if there were more people at Princeton and at Stanford sliding backward, there would be a greater sense of urgency as to how we do something right now.

I saw that, by the way, and this is an aside, but to make the point, there is a lot of concern about the free trade agreement with Mexico and who is helped and who is hurt, and I've seen a lot of people in my State already hurt. There is an assertion a lot of people are going to be helped, but I don't see too many people being helped, but I see a lot of people being hurt.

We had a situation where two newspapers in my home town, the largest city, Detroit, were in a death competition, the Detroit Free Press and the Detroit News, this is a few years ago, and one was going to fail because of the nature of the difficulty of the competition of two major papers surviving in one market area.

Because of the rigors of the competition they came to Washington in a well organized way to seek an exemption from competition, what's called a joint operating agreement, which is a designation that the Attorney General can give to exempt companies from competition so that they in fact can form a monopoly, a joint operating agreement and preserve themselves and preserve the jobs and operate under a Government grant of an exemption from competition.

Of course that they happened and what the consequence has been that the price of the newspapers have gone up and the newspapers have been thinned down. Presumably the jobs, or most of the jobs have been saved, but there was a wonderful passionate cry by them then for the joint operating agreement in the name of savings jobs, namely, their jobs.

Now they're editorializing passionately for the North American Free Trade Agreement saying that workers in Michigan ought to be prepared to compete head on with \$1.25 an hour wages in Mexico, which is very difficult to do. That's one of the reasons why Ford, Chrysler and GM now have 70 plants in Mexico.

But they don't see the value editorially speaking now in this illustration of those jobs as opposed to having had a very clear and, you know, they can taste it on the tip of their tongue the importance of their own jobs when they were caught in a competition situation that they couldn't handle.

So they preaching the virtues of being rough and tough and sort of taking on the competition and so forth while they are safely exempt from it themselves. And I know full well if you had again just in a model sense a Mexican newspaper that could be produced in English and made relevant to the Michigan market that could come in and be sold for three cents say a copy that they would be right back in here again arguing that they needed some help with that issue.

So I cite that as an illustration because people are feeling an acute sense of, I won't say desperation, but it's close to that for many people in our society. We have more people on food stamps in America today than we've ever had in our history.

Interest rates are at a low now than they have been for many, many years, but we're not selling a lot of homes. I think that's a very potent fact because I think it says that there is another sickness here that low interest rates by themselves aren't able to take care of it. I mean we don't want to talk about that, and we don't talk about it very much, but the simple fact is if the normal laws of economics were working, why wouldn't we be seeing more of a flood of home purchases than we're now seeing? It's because there are other problems out there that the low interest rates by themselves can't fix.

In fact, I would assert that the low interest rates are partly a symptom of a problem as much as they are a hopeful sign, you know, for a solution, and obviously we want low interest rates.

So I guess what I'm hoping is going to hear one of these days is a new idea that isn't retraining, which is many cases is a euphemism and it's dreadfully underfunded in any case, or more capital into the private market system, which we need and which we're doing but which is not providing much of a lift, and tougher and fairer trade policies which we're beginning to see some progress on and that's all for the good.

Is there nothing more we can do here at this point? Is there no new idea or fresh idea or fresh collection of old ideas and new formulations that in effect offer us a more promising road map, or is it still back to sort of the incremental standard off-the-shelf traditional analysis that's, you know, right out of one of Paul Samuelson's textbooks?

Mr. BLINDER. It is commonplace, as you say, that technology turns inputs into outputs. So if you want more output, higher standards of living, you either have to do things that will improve the inputs—and here you get to the tried and true things such as you've just been speaking of.

But just let me say by way of a footnote that there are again new ideas around the margins. An example of that is the United States has done a horrible job of the school-to-work transition for those not going to college compared to what many other countries do. We could do a lot better than that. That is of the nature of tinkering around the margin, as you say, but I think it is quite useful tinkering.

So either you're going to do something about the inputs, the labor and the capital inputs, or you're going to do something about the technology, or of course it's better to do both.

I think while there are indeed many new ideas, almost of all of them, at least that we can think of as economists, are either going to have to do with building up the inputs and improving the quality of the inputs, or fostering a more rapid technological improvement, and that is more inventiveness and then of course the incorporation of that inventiveness into concrete things.

You're quite right to say those are the old things that economists have been saying for a very long time, but I think they're true. And you're also quite right to say that these things are not going to show miraculous effects in 1 or 2 or 3 years. You're quite right about that.

Mr. STIGLITZ. I think the point that you raised that we need to show results in 3 years is obviously very important, and that's where we talk about the short run.

The CHAIRMAN. And I don't just say that for political reasons, but I'm saying to you that people are so sick and fed up with what happened to many of them during the 1980's and now on into the 1990's that, you know, 6 more weeks of waiting is a long time if you can't feed your family or, you know, you've sent out your resume a thousand times and nobody thinks you're worth anything.

Mr. STIGLITZ. And a lot of those problems have to do with the overall state of the economy, the short-run problem of the 7 percent unemployment. Those kinds of problems would be alleviated, to some extent, if we could get the economy to grow a little faster. I think that an important part of what we're going to do in the next year is to make the economy grow and get the unemployment rate down.

At the same time that we're doing that—I mean the long run is nothing but a succession of short runs—we have to really keep our eye on the ball for the long run as well.

So I think that an essential aspect of our program is going to have to be to address the short-run concerns that may people face, and those include problems of dislocated workers and the problem of the high unemployment rate. We have to address those, but we also have to put into place a set of programs that will, unfortunately, only show the effects in the longer run.

Now as far as whether there are new ideas, let me make two remarks. One of them is that to some extent, the whole is greater than the sum of the parts, and this is not an attempt to tinker

around the edge with the kinds of policies that one has talked about in the last 12 years.

What one is trying to do here is really change the direction of the economy. One way of thinking about it is that our level of investment in the United States has been abysmally low. I mean, we really are structurally very different, and our level of savings has been really abysmally low.

What we've done in the last 12 years has been an experiment, in some sense, of bringing the level of savings to a lower level than other countries have done, and what we want to do is readdress that problem.

The question is: Japan is growing very rapidly and East Asia is growing very rapidly. Do they have a different formula than we have? To a large extent, they don't. To a large extent, what they are doing is investing more, investing more in human capital and in education, and investing a lot in technology, and they are being very successful.

The formula involves a stronger role for Government than we've had in the last 12 years. So there are things that are markedly different that they are doing from what we've done. But their rapid growth, you know, if you went down the items, the check list would look the same. But how they do it may look quite different.

The CHAIRMAN. I think, too, if you just take Japan, and I know Mr. Blinder was over on this trip——

[The Chairman holds up a large chart.]

——If you look here at our bilateral trade deficits and merchandise with Japan say since 1980, I mean how they have built up and what they now are accumulatively, if you take in the best estimate now for calendar 1993, which is \$56 billion roughly, they have had a net trade surplus with us of \$567 billion over that period of time.

I mean for an advanced country like ourselves this is an awfully score card from their point of view and a terribly perverse one from our point of view, and there is a lot of trade cheating in that I would argue that I think we've been sort of flaccid about sort of speaking up about and doing anything about.

So they have done all the wise things in terms of investments and technology and human capital and the other things and they've helped that with *kiritsu* and a lot of other things, including exclusionary trade practices if you try to sell over there, as you know, in at least a number of areas.

I don't know that you can allow those kinds of differentials to run indefinitely and then imagine at the end of it suddenly you're going to have a whole lot of money to save and reinvest if you've been in effect disinvesting through an adverse trade balance with a principal trading partner who not only has been doing well, but reinvesting the capital in the things that seed the next legs of growth, and you're coming out of it having not done the things you should have done and are even poorer as a result in terms of not having the money to sort of get yourself back into the game. It makes me very uneasy.

Let me ask you this, and this may not sound like a new idea, but it sounds like a new idea to me. The President has committed himself to generating 8 million new private sector jobs over the 4-year period of time.

I would say to you that we're not on that track now through the first 6 months of 1993. Now we may get on that track, and we had better get on that track because that was a promise and you'll hear it said many times, you know, as we get closer to sort of doing it.

Off the premise of getting to 8 million jobs in the private sector over a 4-year period of time, what would be wrong with taking the sectors of the economy that seem to have the potential for the greatest job growth or job creation of higher value added jobs, jobs well above the minimum wage, I mean the kinds of jobs you would like to have more of in this society and which help your national income accounts at the same time, if somebody like the two of you could take and identify some of the areas in the economy where we would most like to see job growth if we can somehow extrude more job growth to get that piece of the 8 million, would there be anything wrong in suggesting to the President that he call in the principal leaders and CEO's within that industry cluster or within that economic segment or sector and call them in to make a very simple point.

We need more job growth out of your sector. Tell me as the President and as the administration and has the Federal Government as a thoughtful working partner and what can we do to most facilitate starting now that kind of job growth and job acceleration in your area and zone of the economy, and how can we make sure the job growth happens in the Continental United States and not somewhere else because we need the jobs here, the work for our people plus the incomes here, and to in effect engage the private sector in a new kind of discussion as to what it takes to get the job lift going that I don't presently see, and I'm not sure that, you know, that sort of the indirect, off-the-shelf incremental adjustments, some of which we're able to get and some of which we're not, are going to basically give you very much in any near-in time frame.

What about an idea like that, is that maybe an idea whose time has come?

Mr. STIGLITZ. Well, there is some of that kind of thing actually going on already where they've called in groups of people to talk about both the positive side of what can be done, and the negative side of what is the Government doing that is interfering with capability.

One of the things that—

The CHAIRMAN. Let me just ask you this. Do you know of a single meeting like that that has happened with either an industry or an economic sector where what would have been posed as the question to that group by the President or whoever is speaking for the President, we would like to see an additional 50,000 or 100,000 jobs come into being in your zone of the economy over the next 18 months beyond what you now forecast or foresee or that we foresee in talking with you, and we would like to talk with you about what it would take to see that kind of increment of additional job growth happen here in America. Do you know whether that question has been posed to any industry group or sector?

Mr. STIGLITZ. No. I haven't participated in any.

Mr. BLINDER. I couldn't say for sure. As you may know, the President has virtually weekly lunches with CEO's. Now to my knowledge, they are not always clustered by industry, and of

course I'm not there listening to what the President says. I can't imagine that he doesn't discuss job growth with them because that's what he is almost always discussing with us and that's what is foremost on his mind.

We are looking at the plight, as you know, of a number of American industries, and I'm trying to remember, and this is from memory, but I believe it was Mr. Eaton who said something the other day to the effect that he has had more constructive consultation with the Federal Government in the last 6 months than he had had in many, many years.

The President has spoken many, many times—and this is a long-winded way of saying that what you said, but there is nothing wrong with repeating it. The President has spoken many, many times of the need to forge partnerships between the Government and the private sector. Of course, we don't have the means, nor the ability, nor in a market economy, the role of doing the job. We can only facilitate the job.

The CHAIRMAN. Is it possible to create a different kind of economic model, and let me describe the kind that in my mind I would like to think we could do. Now you may want to tell me that it's impractical and I'll listen to what your response is.

Let's say your goal is, and separate it from this administration for the moment, but let's say your goal is 8 million new private sector jobs in America over the next 4 years, and you don't want them all at McDonald's and Burger King. So you obviously want to qualitative element of the job growth increment.

Today do we have enough relevant economic information about how our economy works and how the world economy works to be able to game out in a strategy where we think we would like to have those 8 million jobs come from, not that you can push a button and get them precisely that way, but as a starting point to actually construct for yourself a strategy that says, all right, we need 8 million jobs so we think this number will be in manufacturing per se, this number will be in service industries and so forth, and you go through an effort to try to in effect game out where you think you can get, or where you would like to get within the realm of plausibility the 8 million jobs.

And you could maybe even make it sophisticated enough to sort of say, you know, we think we're going to get this many in the first 2 years and this many in the last 2 years or there is some sequence by which they come in because there is sort of some interplay between the jobs.

But to then back out from that analysis and say well if that is what we think we really need to achieve and what we want to achieve, how do we help drive that into place by every conceivable means that we can think of, regulatory policy, jawboning, weekly lunches, daily lunches, brunch, lunch, dinner, you know, breakfast, monetary policy, budget policy, capital investment strategy, retraining strategy, school-to-work kinds of programs, whatever. You know, we've got a lot of people wandering around that are full of ideas.

The question is is there a way to turn all of that into a plausible plan that in fact can undergird and help produce this kind of job growth? Now I can tell you right now people are not expecting it

to happen. There is an enormous disbelief that that is going to happen and the polls are quite current on that.

I think it's important to change the psychology, but one of the ways you change the psychology is that you have to rethink the problem here and go through a series of efforts and initiatives that start to show the ability to construct a new plan or a new strategy. I call this sort of a Team America strategy for the name of a better phrase because I don't think it's Government directed and I don't think it's the private sector sort of left to its own devices.

I think you've really got to have a collaborative effort here, but it has got to be fresher and newer and much more aggressive, and it in a sense has to kind of cut against the traditional therapies because the traditional therapies are you go up to the shelf and you take off a bit of this and you pour that in and you take off a bit of this and pour that in and so forth and we've done what we know to do. I mean this is what we have always done before. I mean what else is there.

I'm saying, you know, everything that I can see representing one of the toughest States in the country in terms of the economic rip tides we've been trying to understand and make sense out of and serving on this committee, on the Finance Committee and on the Budget Committee and listening to people, that's what people want. They want some kind of a formulation like that, and they want it out of the President and he's going to turn to you and ask for it because you're going to be the Council of Economic Advisers, or at least two thirds of it. And the question is can we put something together like that, or are we simply here today and gone tomorrow?

Mr. BLINDER. Let me take a crack at that. With your forbearance, I'll start with something familiar.

But, first, I wanted to say that a strategy something like that is of course what we have in mind, but one can't fine tune too tightly where these jobs are going to be.

The CHAIRMAN. I don't mean to suggest you can. I wouldn't want that read that way. I'm not suggesting that you can sort of figure it out to the decimal point. We're talking about broad chunks here.

Mr. BLINDER. So I would start at the most boring level with the truism that with a strong macroeconomy all of these things go much more easily. Change is very difficult with a weak macroeconomy and much easier with a strong macroeconomy. Confidence also comes back with a strong macroeconomy. So the first priority is strong, steady economic growth, stronger than we've had in the recent past. But, as I said, that is a sort of boring old remedy.

Second, I think the Government can do quite a lot to make its regulatory and tax functions a bit more intelligent than they are. Not to abandon them. There are, after all, important objectives that are being achieved by health, safety, and environmental regulations. But there is definitely room for improvement in all of them so that they can accomplish their goals with less cost to businesses and thereby help create the preconditions for growth.

The CHAIRMAN. Might that not even include, for example, if you had an expensive set of regulations, and I'm not thinking of any particular place in the economy, and you had a timetable mapped out that had dollar signs associated with it, and you've got a cap-

ital formation and a capital investment problem and you say but we stretch out the timetable.

Mr. BLINDER. It could be.

The CHAIRMAN. I mean we do that in Government programs all the time. That might be one way. I mean if you had some quid pro quo understanding that the capital is not invested now, but in 3 years gets invested in something that is going to do job creation now.

Mr. BLINDER. It's possible. This particular area, I think, is the most ripe for the kind of suggestion you made before. This is where we could learn the most from businesses by talking to them and saying, "Here are our objectives and this is the way we're going about it now, and what do you think is wrong with that?" Without abandoning the objectives we could learn to do it better. I think that could profit both sectors. The private sector and the public sector could profit a great deal from interchange on that particular subject of the sort that you were mentioning earlier.

The third thing is to make sure that the American work force climbs the technology ladder. As you said, we can't compete with \$1.25 labor in Mexico, and we can't compete with 36 cents an hour labor in other places in the world. If that's the basis of the competition, we can't compete in those areas. We have to move up the technology ladder, and that means the skills of our work force and technology and capital from the kinds of things we were just speaking about before.

But that's why it's important. We have to move up the technology ladder so that we're not trying to compete with \$1.25 labor. We don't want to do that. That's not a good game to play.

And the fourth thing I would add is—

The CHAIRMAN. Sometimes though a \$1.25 labor can produce goods that are the equivalent of \$12 labor here or Japan or Germany, and that's an anomaly that I don't know that we have an answer for right now. You mean you introduce a lot of that in a hurry and you're going to have a very hard time, you know, swimming against this tide.

Mr. BLINDER. You're quite right, Senator, nor is that the only factor in business decisions—fortunately for us. If it were, there wouldn't be anything produced in America.

We have a comparative advantage across a wide variety of goods these days, especially at current exchange rates, despite wages that are quite high by world standards.

The last thing I was going to add to the list is aggressive export promotion. You were talking specifically about what we might call "non-McDonald's jobs." One thing we know is that jobs in the export sector pay on average, and of course there is a wide variety, but on average pay about 15 to 20 percent more than jobs in other sectors of the economy, and on average these are "good" jobs rather than bad jobs. So I would add aggressive promotion of exports to the list.

Mr. STIGLITZ. Let me just say that I agree with everything on that list. The basic principle of trying to create a partnership, or you called it a Team America, seems to me to be fundamental to the basic approach.

I think there are a couple of ways of thinking about it. You talked about trying to identify the sectors of the economy where there is going to be a lot of job growth.

The CHAIRMAN. Or should be.

Mr. STIGLITZ. Or should be a lot of job growth.

The CHAIRMAN. I would like to try to promote it.

Mr. STIGLITZ. The other way of trying to think about it also is the institutions that facilitate growth in each of these sectors of the economy. In particular, we just heard about the role of the SEC and the capital markets. Well, making sure there is a flow of funds to business, and in particular small businesses, would seem to be a high priority item. Thinking clearly about the impediments to capital getting to small business—regulatory impediments, tax impediments, information impediments—would be factors that would affect all sectors of the economy.

So that the point that we made before, that the small businesses, for instance, have had a large role of creating jobs, I think that's true of most sectors of the economy. I mean that we ought to think of capital markets that work particularly well with small businesses and reasons why small businesses, you know, don't have access to go into the New York Stock Exchange for issuing shares. There are other mechanisms that are important, like banks, and we have to make sure that the regulatory mechanisms that we have, both maintain their objectives effectively—that is sound and prudent banking—but at the same time make sure that the capital gets out there in the areas where it's needed.

The CHAIRMAN. Let me ask you this. I happen to be a conferee on the Tax Bill as a Member of the Finance Committee. If small business is one of the big job growers and job growth drivers, would it be fair to say that the kind of advice you would then be giving the President is to, you know, muscle his way into the Conference Committee to try to do what he could to sort of bring the outcome closer to something that would drive job growth in the small or medium sized business sector?

Mr. STIGLITZ. My sense is that the President is very committed to provisions like those associated with expensing, provisions like in the Bumpers' bill. You know, one obviously has to be very cautious in those provisions because they can be abused, but providing we do it right they can be a vital part of sustaining small business.

The CHAIRMAN. That's a decision that is going to be made here pretty quickly, and once that's locked, you know, you can debate that all you want over the lunch table, but it isn't going to mean much because we're not going to change it again. So if that's a high yield lever, then you guys ought to, if I may respectfully suggest, you ought to be spending a lot of time pushing on that.

I'm also struck by the fact that I hope the President is spending at least half of every day on the economy directly on where these 8 million jobs are going to come from and how we get them.

I have only had one CEO, and we've had dozens, if not hundreds in here testifying I mean from all the leading companies in America and medium sized companies as well, and I've only had one, Rand Aroskog of IT&T sitting where Mr. Blinder is sitting say one day in his testimony that he thought it was an obligation of American business to create jobs in America.

Now it sounds like a very simple July 4th statement, but it runs contrary to sort of the ruthless laws of economics and comparative advantage and, you know, satisfying pension management people who are looking at earnings per share growth and what-have-you.

He actually was able, and I salute him for it, to get the words out of his mouth to say that that ought to be an objective and a responsibility of an American company. It was music to my ears, and I think that that is needed in part because at the other side of society you've got the growth of a condition that I call the Clockwork Orange society problem where we're sort of unraveling in parts of our society because we don't have the economic strength and the dispersion of income and the opportunity working sufficiently to really prevent the growth of a large and very distressed underclass problem situation, crime and all the manifestations of it.

So it's isn't an academic exercise, nor do I think you believe that. I mean you're here to serve in the Government because you think absolutely to the contrary.

My sense is that we're kind of running out of time on all fronts, politically, public support and even sort of the growth of elements of a Clockwork Orange society where people decide that the society can't work for them. I mean they're on the outside looking in and they see no way in, and so it creates the worse of antisocial behavior.

That's a terrible problem and we're seeing more and more crimes of all kinds. I mean people go in and gun down four or five people in an office building or somebody that is shooting kids on a playground. I mean you're seeing manifestations of things we didn't really see 10 or 15 years ago. I don't say it relates one for one to the economy, but I think if you want to do as much as anything to solve the crime problem, if you can strengthen the crime problem you're probably going to get more benefit in terms of crime reduction than any other thing we can do.

I'm trying to stress to you in the time today, and I'm not just taking the time to hear my own voice or to run you over a set of needless hurdles that this hour of the day. I think the job you have is among the most important job we have in our Government. I think we're way behind the curve.

I think the administration, even to this moment, is behind the curve in terms of understanding how little time we have and how much ratcheting up there has to be here in both confidence and performance, performance first and confidence which sort of runs beside it in the economy.

And you fellows are going to have to bring in some new ideas. I mean even though you're here, I would say to you, you know, don't load the moving vans and come if everything is going to be everything that has been said before and sort of increments on the margin, and just the fact that you're engaging and that you care a lot, because I don't think the country is going to appreciate that because it isn't going to do enough, and I'm greatly concerned about it.

I'm greatly concerned about the degree to which you're going to hold the public and the public faith if they don't start seeing results. And the long run doesn't mean anything if you don't have a

succession of short-run improvements that is building this better long run because nobody is going to believe it. I mean people have seen too many disappointing experiences to believe that the fact that we can't get it right now or that we can't get much improvement now means just be patient because it will be out there some time in the future.

I mean people listened to that with Reagan, what Bush labeled voodoo economics for 8 years and they listened to Bush for 4 years and they decided that they would try somebody new.

Time is very short, and I think, you know, you fellows have to force yourself back through some fresh thinking, some new thinking. Maybe it's just old thinking with new labels or new packaging or new formulations, but something has to be done here much more rapidly than I now see, and you're going to have to do that in the face of the gridlock and the politics here and the fact that the Republican nomination for 1996 is already out of the shoot and you've had nine candidates up to New Hampshire already. I think the only one who hasn't been there is Harold Stasson, and I assume he'll be going soon, but that's a reality.

So we need bold thinking. We really need bold thinking from the two of you even if it's something that irritates people back at Stanford and back at Princeton. I mean I would be very appreciative if you fellows could think of something together or separately in the dead of night that you could say that would cause the fraternity back at Stanford or Princeton to say, you know, these guys are talking in some new language, or I mean they're sort of outside the envelope of what we all believe and we all tell each other every single day, which frankly isn't working very well.

That would be a delightful experience, and if I got that from either one of you, I would feel very grateful as a citizen, let alone Chairman of this committee. So I'm urging you to try to do that because that is what is needed here. That's really what is needed.

Now if it can't be done, things are too complicated and we're locked in and so forth and so on, it's another story, but I would like to think that we can invent our way through this problem.

Would there be much difference between \$450 billion of deficit reduction over 5 years versus \$500 billion? When you're using 5-year projections, is that the kind of thing that really everything has to turn on, the pivot point in terms of this structure of a plan and the economics and the interest rate inflation expectation as to whether it's \$450 billion or \$475 billion or \$525 billion? I mean that level of magnitude, \$500 billion over a 5-year time frame, how critical is that?

Mr. BLINDER. I think it's more critical where you wind up at the end of the 5 years. When we originally talked about designing the economic program in January and February, the focus was sort of on the end year, how far we were going to get the deficit down by the end.

This 5-year sum, as you know, is a kind of an accident of history. It's the way Congressional scorekeeping has gotten done, I guess, starting in 1990. I'm not sure if it was done before that. You would know better than I do. But that's the way scoring is done around town. So you tend to express your goal—in order for it to be understood and dealt with in the legislative channels—in 5-year totals.

In that scorekeeping the administration's original proposal was in the \$490 billion and then re-estimated by the Congressional Budget Office, and you know the history as well as I. It was an expression of a ball park number of where we thought we should be basically at the end of 4 or 5 years.

Now, if you say, "you really sure it wouldn't be better to be \$10 billion more or \$10 billion less?", the answer is: of course not; things are not that precise. But I think as a ball park figure a deficit reduction by these scorekeeping rules in the range of \$500 billion, give or take, is where we would like to be.

The CHAIRMAN. What if it turns out to be \$450 billion?

Mr. BLINDER. It depends a lot on how and why. One way it could turn out to be \$450 billion, and this is not a very good way, is that the economy turns out to be weaker than we thought.

The CHAIRMAN. Well let me make a suggestion to you. I mean, you know, this is my thinking obviously and you have your own thinking. I think these two things are connected, the earlier discussion we just had and this discussion. I think it's a lot more important to get the first thing done than it is as to whether we get \$500 billion to the penny or close to it in over 5 years in deficit reduction or \$475 billion or \$450 billion or \$525 billion.

In fact, I would say that it almost becomes as long as it's somewhere in that general range, if you get the first, you don't have to worry about the second. If you spend all your time thinking about the second, namely, the \$500 billion target, you may end up being so myopic on that that you bungle the first one, in which case you're not going to probably get it to happen in any case, but I'm not sure it's going to mean much if you do.

I don't know how we get turned around, because I think there is a certain budget "wonkism" disease that's loose in the town that has nothing to do with job growth and economic lift in bringing deficits down by having a more robust economy.

But we've got a lot of people in the country that need work, and they are people every bit as talented as any of this in this room today. Fortune Magazine has just done a cover story, as has Business Week and other people recently on the people that have been thrown out of white collar jobs, people that earn anywhere from \$75,000-\$200,000 a year. They are wondering around all over the place today, a lot of them in California, and a lot of them high-tech people out of banks and what-have-you with very impressive resumes, lots of skills and nobody wants them. They don't fit in.

Now I mean retraining is sort of a bad joke, because what do you retrain them for? I mean I guess that would be downward retraining, you know, you would teach somebody to press pants that knows how to make nuclear warheads or something.

We've got a big problem out there with people right now that need work and aren't finding it. I don't know how we can all the red lights on the control panel flashing here, and if you guys don't do it, I don't know who is going to do it, because if everybody is sort of sanguine, and I am not saying you are sanguine, but I'm saying if people are sanguine in saying well, tough problem, I mean this is what we've got to pick from and so let's take this, this and this, and let's plug it in and, you know, it's the best we can do and let's hope it works.

I think that's all wrong. I think you've got to say we've got to meet this objective of 8 million jobs in this economy, and now I want to think about every single way there is to bring that into being both conventionally and economic policy and unconventionally, and the only thing I'm interested in in the end is the strategy that I'm confident will work and the public will understand will work and can have some belief in, too.

If you can do that, then separately or together you're going to be a tremendous addition to the administration, and I think that's the objective.

I've got a lot of other questions that I'm going to have you answer for the record, and I'm not going to take the time now, but I think this has been an important discussion, and I look forward to talking further with you.

Thank you very much.

Mr. BLINDER. Thank you, Senator. We'll be happy to answer the questions.

The CHAIRMAN. The committee stands in recess.

[The committee recessed at 1:43 p.m., subject to the call of the chair.]

[Prepared statements, biographical sketches, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR JIM SASSER

Thank you Mr. Chairman for calling this hearing this morning on the nominations of Alan Blinder and Joseph Stiglitz to be members of the Council of Economic Advisers and Arthur Levitt to be Chairman of the Securities and Exchange Commission. These nominees have been selected by President Clinton and I am confident that all three of the nominees before the Committee today will serve the country well.

As the economy slowly recovers from several years of recession and stagnation, and as we embark on a course of tight fiscal restraint to reduce the budget deficit by nearly \$500 billion over 5 years, a close eye must be watching the macro-economy and the economic impact of all policies. I believe Dr. Blinder and Dr. Stiglitz will provide valuable expertise in this regard to the Administration as members of the Council of Economic Advisers.

As one of the Nation's leading economists, Dr. Blinder is a specialist in stabilization policy, macroeconomics, income distribution and the Japanese economy. These areas of expertise will be of particular importance to the Administration at this time. Indeed, Dr. Blinder accompanied President Clinton to the recently concluded G-7 Summit in Japan as an advisor. I am confident that his expertise and knowledge of the Japanese economy contributed to the success of the Summit.

A distinguished academic and prolific and well-read economist, Dr. Blinder received his PhD in Economics from the Massachusetts Institute of Technology and was a Fulbright Fellow at the London School of Economics. He received his undergraduate degree from Princeton University where he most recently has served as the Gordon S. Rentschler Memorial Professor of Economics.

A professor at Stanford University, Dr. Stiglitz is highly regarded as an economic theorist. He also received his PhD from MIT, was a Fulbright Fellow at Cambridge University and received his undergraduate degree from Amherst College.

Arthur Levitt will bring significant experience and understanding of the securities industry and financial markets to the position of Chairman of the SEC. Mr. Levitt is the former chairman of the American Stock Exchange and was the president and partner of a successful investment banking firm.

Mr. Chairman, I urge the Committee to give swift and favorably consideration to these nominees so they may be considered by the full Senate for confirmation. Thank you again for holding this hearing.

PREPARED STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

ON THE NOMINATIONS OF ARTHUR LEVITT, JR. TO BE CHAIRMAN OF THE
SECURITIES AND EXCHANGE COMMISSION, AND

JOSEPH STIGLITZ AND ALAN BLINDER TO BE MEMBERS OF THE COUNCIL OF
ECONOMIC ADVISERS

Mr. Chairman, the committee has before it today three nominations that are very important to our economic future.

Our financial system has been undergoing dramatic change, and the Securities and Exchange Commission is one of the Government's main experts on financial markets, which means that sound, effective leadership at that agency is particularly important in these critical times.

I look forward to hearing from Arthur Levitt, Jr. on how he sees the future, and what changes he believes are necessary to ensure that our securities markets will be able to play their part in supplying the capital our economy needs to grow and prosper.

I also look forward to hearing from Alan Blinder and Joseph Stiglitz. The President has nominated them to join Laura Tyson at the Council of Economic Advisers. If there was ever a time when a President needs the best economic advice possible, this is it. A lot of the old rules that we have relied on for policymaking seem to be out of date. Our economy is increasingly intertwined with the economies of other countries around the world. We therefore need to pursue economic strategies that recognize the changed realities we are facing. The counsel and advice provided by the President's economic advisers are therefore more critical than ever, and the challenges facing the council are more critical than ever.

That makes today's hearing important to every American. I hope all of the nominees today will talk a little about how the changes in our financial system and our economy affect ordinary Americans, and about how the policies this administration is following will help make the future brighter for every American.

STATEMENT OF ARTHUR LEVITT, JR.
CONCERNING HIS NOMINATION TO BE A MEMBER OF THE U.S. SECURITIES AND
EXCHANGE COMMISSION

JULY 13, 1993

Mr. Chairman and Members of the Committee: It is a pleasure for me to appear before you today. I am grateful for the honor President Clinton has given me by nominating me to be Commissioner of the Securities and Exchange Commission, and I thank you, Mr. Chairman, Senator Dodd, Senators Moynihan and D'Amato, and other Members of the Committee and staff for your support and encouragement during this confirmation process.

Please allow me to introduce you to my wife, Marylin. Her support and encouragement and participation have been the foundation of every aspect of my working life and my family life. With her are two other very important people in our lives: our daughter, Lauri, and her husband, our son-in-law, Michael Friedland. Our son, Arthur had hoped to be here with us, but unfortunately, he was called out of the country on business.

I want you to know from the beginning how much I respect the critical role of this Committee and its staff in the regulatory process. The combination of your oversight together with the commitment of the SEC to fulfilling its mission have preserved the integrity of this agency for six decades. It is an arm of our Federal Government that has enjoyed almost universal respect and admiration both at home and abroad. I have spent more than thirty years working in and investing through the marketplace—as a broker, as an investor and as Chairman of the American Stock Exchange. I thank you for the part you have played in maintaining its efficiency, effectiveness and integrity.

The SEC exists to protect the integrity of the world's greatest financial marketplace. It has consistently served as a model of fair, tough-minded and independent regulatory authority. Its name stands for protection of the public interest. It has earned its reputation the old fashioned way—with unwavering determination to defend the interests of investors and the reputation of our capital markets. The standards of openness and honesty that it has enforced have made the American markets the envy of the world. The SEC's disciplinary mechanisms have worked repeatedly and successfully to deter—and when necessary to punish—those who would subvert the markets for illicit gain. My first goal as Chairman will be to ensure vigilant enforcement of sound rules that make ours a clean, competitive marketplace.

Secondly, I will focus on the mission of the agency to nurture a climate that encourages the creation of capital. Much has changed in the marketplace since the creation of the SEC: new competition at home and abroad; new technology; instantaneous communications; geometric increases in international travel and trade; the creation of more complex financial products; and greater involvement in our markets by both American citizens and investors and corporations from overseas. We must concentrate not only on the needs of large, multinational conglomerates caught up in global competitive struggles. We must also help small, entrepreneurial businesses raise the capital that is the lifeblood of innovation. These emergent businesses have proved to be the engine of economic growth—creating a disproportionately large share of our jobs, our research and development breakthroughs and our higher living standards.

Finally, to protect the American capital markets and their participants, we must ensure that our marketplaces remain vigorous and efficient. The SEC must be certain the requirements it imposes are sound, reasonable and cost effective. Regulations that needlessly increase costs help drive transactions offshore, where, I might add, investors lack the protection of the laws that the Commission is here to enforce.

If confirmed by the Senate, I will devote my total and untiring efforts to enhancing and defending the legacy of the SEC. I eagerly look forward to working with you and the Commission during the coming years and feel confident about the ability of all of us, working together with the best interests of investors, issuers and the markets in mind, to meet these challenges.

Thank you, Mr. Chairman and Members of the Committee, for this opportunity to appear before you today. I appreciate your thoughtful words and would be pleased to answer any questions you may have.

STATEMENT BY JOSEPH E. STIGLITZ

Mr. Chairman and distinguished Members of the Committee on Banking, Housing and Urban Affairs: I am pleased and honored to appear before you today as a nomi-

nee to be a Member of the President's Council of Economic Advisers. As you know, the Council of Economic Advisers was established under the Employment Act of 1946, which stated that "it is the continuing policy and responsibility of the Federal Government to use all practicable means . . . to promote maximum employment, production, and purchasing power." I believe very strongly in that commitment, and in the role of the Council of advising the President and the Administration more generally on the best means of achieving these and the broader economic objectives which are at the center of the Administration's program.

At the time I was invited to serve on the Council, I was Professor of Economics at Stanford University, where I have been for the past five years. Prior to that, I was a professor at Princeton University, at Oxford University, and at Yale University.

While my primary focus within the Council will be on microeconomic issues, I have always attempted to look at economics from a more integrated perspective. At Stanford, I have taught graduate courses in macro-economics, micro-economics, and the economics of the public sector.

Our country faces major challenges in almost every sphere of economics. We have created 813,000 jobs since the Administration took office, but the unemployment rate remains stubbornly high, at 7 percent, and economic growth remains lackluster. The deficit reduction package represents a major achievement. The bond markets have responded enthusiastically in anticipation of its passage, and the lower long-term interest rates have helped sustain our recovery.

While the immediate focus of our attention in on job creation, we must remain attentive to those issues which will determine our ability to compete in the long run: to our level of savings and investment, to the education of our children, to the advancement of American technology.

Our economy faces problems not only with creating jobs, but also with creating good, high paying jobs. The statistics concerning how badly our most poorly paid workers have fared during the past two decades are well known: for example, the lowest decile of workers have seen their real wages fall substantially over the past two decades. We need to come to an understanding of the causes of these problems, and to formulate policies that ensure the creation of a steady stream of good jobs, and that all Americans have the skills that good jobs require. We must reform our welfare system to make work pay and to help move people out of poverty.

Our economy faces not only problems, but opportunities and challenges. The end of the cold war provides us with an opportunity to redeploy our resources. The past quarter century has seen marked changes in the economies of the world, including the growth of the economies of East Asia and increasing unity in Europe. We are in the midst of establishing a new world economic order. Ensuring that the rules which govern that new world economic order are equitable, and ensuring that our economy has the strength to avail itself of the opportunities which this new order will provide, are high priorities.

At the Council, if confirmed, I will be concerned not only with these issues, but also with a wide variety of micro-economic issues, including those that concern particular sectors of the economy.

In concluding, Mr. Chairman, let me express my gratitude for your scheduling of these hearings so promptly after the nomination papers were submitted to you. I would be happy to answer any questions you or other Members of the committee might have.

STATEMENT BY ALAN S. BLINDER

Mr. Chairman and distinguished Members of the Committee: I am honored to appear before you today as a nominee for the President's Council of Economic Advisers. As you know, the Council is a purely advisory agency, but its purview extends across every economic issue that is dealt with by the Administration. That is a vast area of responsibility and, with a three-member Council, each member is spread pretty thin and forced to be somewhat of a generalist. I believe my entire professional career has prepared me for this role.

I was born in New York City and raised on Long Island before enrolling at Princeton University in 1963. After graduating from Princeton in 1967 with an A.B. degree in economics, I attended the London School of Economics for one year before going to Massachusetts Institute of Technology for my Ph.D. In 1971, I began teaching at Princeton, and I have lived and worked there ever since—except for a string of sabbaticals spent at Stanford, the Hebrew University of Jerusalem, the National Bureau of Economic Research, the Brookings Institution, and the Russell Sage

Foundation. I sometimes joke that 22 years at Princeton proves either that I can hold a steady job or that I am in a rut. Probably both.

My academic specialties have been in the areas of unemployment, inflation, consumer behavior, monetary and fiscal policy, inventory behavior, and income distribution, though I have also written on a variety of other topics such as social security, pensions, labor economics and, most recently, business pricing practices and the structure of the Japanese economy. My work is a blend of empirical research and theory with a practical bent.

I am the co-author, along with William Baumol, of an introductory economics textbook which was first published in 1979 and is now in its fifth edition. Over a million students have learned basic economics from this book, and that educational endeavor may well be my most gratifying and enduring contribution to better economic policy.

However, as some of you know, I have been an active sideline participant in many economic policy debates for many years. For about 4 years, I wrote a monthly column in *The Boston Globe*. After that, for almost 8 years, I wrote a monthly column in *Business Week*, from which I resigned when I went to work in the Clinton transition. My writings have also appeared in a variety of other newspapers and magazines such as *The New York Times*, *The Washington Post*, and *Newsday*.

I have testified before various Congressional committees, including this one, 18 times since 1980 on a wide variety of public policy issues—but mostly on macroeconomic topics, which will be my specialty on the Council if I am confirmed. I served as an informal economic adviser to the Clinton campaign in 1992 and, 4 years earlier, played a similar role in the Dukakis campaign. My only previous Government service came in 1975, when I served for a few months as a Deputy Assistant Director of the Congressional Budget Office when the CBO was just getting organized. I am delighted by the prospect of turning from sideline kibitzing about policy to actual formulation of policy.

Economics, especially academic economics, is often criticized for being aloof, arcane, and far removed from the day-to-day concerns of ordinary people. There is truth to this criticism, though I think it is often exaggerated. My view has always been that a social science ought to be devoted to the betterment of society, but that a social scientist ought to go about his or her business in a scientific way. I am fond of quoting Keynes, who wrote that:

The master-economist . . . must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.

No doubt, I fall somewhat short of this ideal. But it is something I always think about and strive for.

Finally, I want to add a personal note of thanks. As many of you know, I have been working as Chief Economist at the Council since the first day of the Clinton Administration; so a great deal of time has elapsed between my arrival in Washington and this day. Part of the delay was my own fault; we were all working so hard in the early days of the Administration that it was March before I completed all my forms. None of the rest was due to the Committee. In fact, the Committee scheduled today's hearing almost immediately after receiving my final papers from the White House. Mr. Chairman, it's been a long wait, and I am most grateful to the Committee for acting so expeditiously. Thank you sincerely.

I will now be more than happy to answer any questions you or any Member of the Committee may have.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR REIGLE
FROM ARTHUR LEVITT, JR.**

Q.1. Last year, the SEC staff issued *Protecting Investors: A Half Century of Investment Company Regulation*, a major study of the regulation of mutual funds. With well over \$1 trillion in assets, mutual funds are an increasingly important investment vehicle for American families.

Q.1.A. What changes if any, do you think should be made in the area of regulation of mutual funds?

A.1.A. The *Protecting Investors* report contains a number of recommendations of the Commission's Division of Investment Management that are intended to update and improve investment company regulation. The Commission already has implemented several recommendations through rulemaking. With one exception, the Commission has yet to consider the Division's legislative recommendations. The one recommendation already approved by the Commission and forwarded to Congress is designed to increase capital participation in "private" investment companies, consistent with investor protection. See S. 479, 103d Cong., 1st Sess. (Mar. 2, 1993); *The Small Business Incentive Act of 1993: Hearings Before the Subcomm. on Securities of the Senate Comm. on Banking, Housing, and Urban Affairs*, 103d Cong., 1st Sess. (Mar. 4, 1993).

The Division's legislative initiatives span the gamut of issues affecting the investment company industry. For example, to strengthen the independence of investment company boards, the Division has suggested that the percentage of required independent directors should be changed from forty percent to a majority. To enable investors to appreciate more readily the costs associated with fund investments, the Division has recommended the creation of a new type of fund—the unified fee investment company or "UFIC"—that would have a single or unified fee covering all fund services and most expenses. Other recommendations by the Division seek to facilitate bilateral investment company access to United States and foreign markets and to require increased disclosure to participants of qualified employee benefit plans who select their own investments.

I understand that reaction to these initiatives has been as varied as the proposals themselves, with some recommendations enjoying widespread support, while others have been met with varying degrees of opposition. In evaluating these recommendations, I intend to consider carefully comments from the industry, investors, and other interested parties.

Q.1.B. Banks are increasingly selling mutual funds to their customers. Are bank customers receiving the information they need to distinguish insured deposits from uninsured securities products?

A.1.B. The Federal securities laws require that a written prospectus precede or accompany any sale of mutual fund shares, including fund shares sold by or through banks. The Commission's staff requires any mutual fund sold by or through a bank to disclose prominently on the cover page of its prospectus that shares in the fund are not deposits or obligations of, or guaranteed or endorsed by, the bank, and that the shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board,

or any other agency. This disclosure is intended to alert bank customers to the fact that shares in a mutual fund are not federally insured.

I would like to stress, however, that the Commission does not generally have oversight or inspection authority over banks that sell mutual fund shares because banks are expressly excluded from the broker-dealer provisions of the Securities Exchange Act of 1934. Moreover, because of this exclusion, the sales practices rules and regulations of the self-regulatory organizations do not apply to bank sales of mutual fund shares. The self-regulatory organizations have taken steps to ensure that broker-dealers selling mutual fund shares to customers using the proceeds from maturing certificates of deposit inform those customers of the uninsured status of mutual funds. While the Commission requires that a written prospectus with the described disclosure be delivered to purchasers of fund shares, the Commission is not in a position to know whether bank salespersons are adequately informing customers of the differences between mutual funds and insured deposits.

Q.2.A. Last year, in an October 13, 1992 response to Cracker Barrel Old Country Store Inc., the SEC abruptly changed its policy regarding shareholder proposals. The SEC said corporations can exclude from proxy ballots all shareholder proposals that deal with corporate employment practices, no matter what issues are raised. Was this a proper limitation for the SEC to place on shareholders' ability to communicate with management?

A.2.A. Since the Commission is in litigation with respect to the Cracker Barrel letter, I believe it advisable that I not comment on the specific Commission action.

Overall, I believe that shareholder proposals can provide an effective means by which shareholders communicate with management and the board of directors, as well as each other, on important company policy issues.

This process, however, must be balanced with the basic precept that the executive officers and board of directors are responsible for managing the company. Shareholder proposals should not be a mechanism by which shareholders attempt to micromanage the company.

Q.2.B. Last year, in an October 13, 1992 response to Cracker Barrel Old Country Store Inc., the SEC abruptly changed its policy regarding shareholder proposals. The SEC said corporations can exclude from proxy ballots all shareholder proposals that deal with corporate employment practices, no matter what issues are raised. Would it be better to allow more dialogue between corporate owners and managers, rather than just encouraging shareholders to "vote with their feet"?

A.2.B. I believe the shareholder proposal process is an appropriate means for shareholders to communicate with management and the board of directors, as well as each other, on important company policy issues.

Care must be taken, however, that the process operate in a manner that does not result in inordinately lengthy, incomprehensible, confusing proxy statements that defeat the disclosure goals of in-

formed shareholder voting intended by the Commission's proxy rules.

Q.3.A. With the elimination of controls on the flow of capital and the development of technology, the world may soon be one large financial market. Already more than 500 foreign stocks are traded on U.S. exchanges, while U.S. stocks are also traded off-shore. How do we strike the balance between regulation that protects investors and regulation that drives activities offshore?

A.3.A. Under my leadership, the Commission will remain committed to seeking ways to increase the efficiency and lower the costs of raising capital, for both U.S. and foreign issuers. As reflected in the \$955 billion of securities offerings in the U.S. capital market in 1992 the U.S. capital market is the preeminent market around the globe. To maintain that competitive position, we must analyze our regulatory requirements to determine which regulations, and the concomitant costs, are unnecessary to protect investors and the integrity and stability of our markets. At the same time, however, we must assure that we do not jeopardize the foundation of our market's enduring strength and resilience—the confidence of the investing public in the integrity and fairness of the market.

Q.3.B. How do we prevent a weakening of securities regulation by competition in laxity between exchanges in different countries?

A.3.B. As I testified in my confirmation hearing, openness, integrity, fair dealing and full disclosure are the bedrocks of the continuing vitality and strength of the U.S. market. The best way to prevent a race to laxity among markets is for the United States to maintain that tradition, as it continues to seek ways to further enhance the competitiveness of its financial markets. The pre-eminence of our markets will enable us to lead by example and through cooperation with other nations.

Q.3.C. Is there enough cooperation among securities and futures regulators around the world?

A.3.C. There is good cooperation among securities and futures regulators on a global basis, and the level of this cooperation continues to improve. In the multilateral context, the International Organization of Securities Commissions ("IOSCO") now has over 100 members, including both securities and futures regulators. The Technical Committee of IOSCO has studied and approved a variety of recommendations, including a set of principles for the negotiations and implementation of Memoranda of Understanding ("MOUs") for the sharing of information. On a bilateral basis, the SEC has entered into MOUs and less formal agreements with 15 countries, and our foreign counterparts have also entered into MOUs with each other. The CFTC has subsequently entered into similar agreements with many of these countries. The increasing use of these agreements has enhanced regulators' confidence that domestic market integrity can be preserved as internationalization continues, and it facilitates regulators' ability to administer applicable laws and regulation in a flexible manner in response to issues raised by internationalization, such as listing standards. As Chairman of the SEC, I will work to continue to facilitate cooperation among all regulators of financial markets.

Q.4. The United States gives foreign banks and securities firms the same competitive opportunities in our financial markets as domestic firms enjoy. Some countries, however, do not always provide such "national treatment." For example, the Japanese Government recently proposed regulations on derivatives activities that appear designed to handicap market advances being made by U.S. firms in Japan. At his own confirmation hearing Secretary of the Treasury Bentsen voiced concerns about certain foreign countries that take advantage of our open financial markets, yet do not give us a fair opportunity to compete on theirs. He stated: ". . . the touchstone of our trade policy, including international negotiations on financial services, is that we must demand reciprocity."

Q.4.A. Do you agree with Secretary Bentsen on this point?

A.4.A. I believe that the U.S. Government should continue to develop approaches to ensure that U.S. financial service providers can obtain access to foreign markets. To this end, the SEC recently participated with the U.S. Treasury Department in negotiations in Tokyo with the Japanese Ministry of Finance to discuss regulation of derivatives. Those talks were successful and lead to the development of a framework to ensure, among other things, that regulation of equity derivatives markets in Japan be applied on a non-discriminatory basis. We plan to continue to provide technical assistance to the U.S. Treasury Department and the U.S. Trade Representative in this and other contexts, such as the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, to increase opportunities for U.S. financial service providers abroad.

Q.4.B. Do you think our negotiating position on behalf of U.S. firms would be improved if we enacted the Fair Trade in Financial Services Act, a bill passed by the Senate several times, under which U.S. authorities could deny applications from firms whose home countries discriminate against U.S. firms?

A.4.B. I am committed to using every device available to resolve issues involving fair trade in financial services. I believe that we can successfully negotiate agreements with our foreign counterparts to open foreign securities markets to U.S. financial service providers. On the other hand, if sanctions were available, we would of course have to consider the risk that there could be retaliation against U.S. firms, many of whom have extensive business overseas. This is a very difficult issue to balance, and I am not currently in a position to determine whether such sanctions would effectively contribute to our negotiation strategy.

Q.5. Last year, the SEC took steps to reduce the cost of securities law compliance for smaller companies, including increasing the amount of stock that can be offered without registration and creating simpler forms. Is there more that can be done in this area?

A.5. Yes. An important contribution to enhancing this effort would be the enactment of the Small Business Incentive Act which you co-sponsor. If enacted, this legislation, among other things, would raise from \$5 to \$10 million the Commission's authority to exempt small offerings from registration.

Last year, the Commission as part of its Small Business Initiative, increased the size of small offerings exempt under Regulation A from \$1.5 million to \$5 million (the maximum amount that could be exempted under current Commission authority) and streamlined the disclosure and procedures required for such offerings. Since adoption of these revisions to Regulation A last August, the dollar amount of securities filed for offerings pursuant to the Regulation has quintupled from \$35.9 million to \$186.7 million in the comparable period. The increased exemptive authority provided by the Small Business Incentive Act would permit the Commission to expand the utility of Regulation A for small businesses.

Small businesses using the simplified registration forms adopted as part of the Commission's Small Business Initiative have filed registration statements for offerings of \$2 billion as compared with \$808 million in the same period.

Just this spring, the Commission further simplified the registration and reporting requirements for small businesses transitioning into the public markets.

As I testified before the Committee, I am committed to further streamlining the capital raising process and reducing compliance costs for small entrepreneurial businesses consistent with the protection of investors. These emerging businesses have proved to be the engine of economic growth.

Q.6. According to press reports, the SEC is conducting an inquiry of industry practices in the municipal bond underwriting area. Municipal securities are currently less regulated than corporate stocks and bonds.

Q.6.A. Is more regulation of the municipal securities market needed?

A.6.A. Presently, the Commission's Division of Enforcement is reviewing the practices of a number of brokers and dealers with respect to political contributions. The Division of Enforcement has asked a number of municipal broker-dealers that engage in significant municipal securities underwriting activities voluntarily to provide information on their political contributions. Until the ongoing inquiry establishes the nature and extent of these practices, I do not think I should draw any conclusions concerning whether municipal underwriters are engaged in practices that violate the securities laws, or whether there is a need to regulate further underwriter political contributions and other potential influence-seeking activities implicated by such activities.

Q.6.B. Should investors in municipal securities receive additional disclosure?

A.6.B. I believe that issuer disclosure regarding securities is essential to the efficient operation of the securities markets and the informed investment choices of investors.

The Commission has long been concerned with improving disclosure in the municipal securities markets, and has periodically reviewed the status of the regulation of municipal securities under the Federal securities laws in light of innovations in the municipal securities markets, and the changing needs of investors. As part of its responses to an inquiry by Representatives John Dingell and

Edward Markey, the Commission is presently reviewing many aspects of the Federal regulatory scheme for municipal securities, including disclosure in both the primary and secondary markets.

While I believe in the importance of disclosure in the municipal markets, I also recognize the unique nature of this market and the critical role played by municipal issuers in financing much of the nation's infrastructure. Therefore I believe the question of whether and how municipal disclosure should be enhanced deserves careful consideration, and I would like the benefit of the Commission's study in reaching a conclusion on this issue.

Q.7. The SEC is charged with administering the Public Utility Holding Company Act, which is designed to protect utility holding company investors and consumers.

Q.7.A. Has the SEC been devoting sufficient resources to enforcement of the Public Utility Holding Company Act?

A.7.A. The Act directs the Commission to administer the statute to protect the interests of consumers and investors, as well as the general public interest in a sound electric and gas utility industry. I believe the Commission has lived up to its mandate under PUHCA and will make every effort to continue to do so.

Fundamental changes are occurring in the electric and gas utility industry. The Energy Policy Act of 1992, for example, greatly increased the extent to which holding companies may engage in activities that were severely restricted under prior law. The statute also gave the Commission primary responsibility to protect the consumers of registered systems against any adverse effects of the new ventures. I am advised that the Commission, as a consequence, is seeking additional appropriations to expand its audit capabilities and to ensure effective administration of the Act. I understand that in its 1995 and 1996 budget request, the Commission is seeking additional staff of 8 and 10 persons, respectively, for the Office of Public Utility Regulation, to help it fulfill its investor and consumer protection responsibilities.

Q.7.B. Last year, the District of Columbia Circuit ruled in *Ohio Power v. FERC* that the Federal Energy Regulatory Commission may not disallow costs that have been approved by the SEC. Does this decision raise a possibility that utility consumers may bear unfair costs?

A.7.B. I am aware of concern that the decision will entail higher rates for retail customers. The immediate impact of the case in Ohio is to allow Ohio Power to continue to pass on certain coal costs to consumers. I understand, however, that the municipal wholesale electric customers of Ohio Power have asked the Commission to investigate, among other things, the pricing of the coal that Ohio Power purchases from its subsidiary. The staff of the Commission is currently reviewing the municipalities' allegations.

With respect to the broader implications of *Ohio Power* on utility consumers, I believe the commission can accomplish the sometimes difficult task of protecting the interests of both consumers and investors. PUHCA is intended, among other things, to promote effective local regulation. Recent developments in the industry and the law have led the Commission to intensify its efforts to work in con-

sultation with State and local regulators. I understand that the Commission has stated that it will do everything within its power to minimize the impact of the Ohio Power decisions on ratemaking, and I fully support that position.

Q.7.C. Is a legislative response appropriate? If so, what form should it take?

A.7.C. I understand that the Commission has suggested that the *Ohio Power* decision may have limited precedential significance. The matter arose in special circumstances which are unlikely to recur. Before I take a position on the need for a legislative response, I will consult with my fellow Commissioners, the staff of the Commission and the Federal Energy Regulatory Commission.

Q.8.A. On June 17, SEC Director of Enforcement William McLucas testified that "private actions under 10(b) of the Securities Exchange Act of 1934 serve as the primary vehicle for compensating defrauded investors. Private actions also provide additional deterrence against securities law violations." Do you agree with this statement?

A.8.A. I agree with both observations made by Mr. McLucas. Although the Commission routinely seeks orders of disgorgement in its enforcement actions, these orders are limited to the amount of profits made by the wrongdoer. The amount of investor losses stemming from the same conduct may be far greater, however, depending on the type of fraud or the transactions involved. For that reason, private suits that successfully prove fraud are the principal means through which investors receive compensation for their losses.

It is also true that, given the limitations on its resources, the Commission is not able to investigate every potential violation of the securities laws. Private actions augment the Commission's own efforts and thereby provide additional deterrence against violations.

As I stated at my confirmation hearing, however, I am deeply mindful of the costs imposed by private securities litigation and its impact on capital formation, particularly for small businesses. In fact, I have experienced the pain and cost of strike suits and frivolous litigation. I believe that current institutions may already have the tools to address part of this problem. For instance, judges, perhaps, could play a greater role in dismissing spurious litigation.

I intend to closely examine this issue and would be pleased to work with you and your colleagues in the Senate.

Q.8.B. Mr. McLucas further testified that changes to joint and several liability and standards for aiding and abetting liability "could make it impossible for defrauded investors who prevail at trial to recover full compensation for their losses." Do you share this concern?

A.8.B. I share the concern that some of the suggested changes could make it impossible for defrauded investors to obtain full recovery of their losses. Under the current system, each culpable defendant in a fraud action is responsible for the entire amount of damages if other defendants are unable to pay their share. If joint and several liability were abandoned in favor of proportionate li-

ability, investors (as opposed to other defendants) would bear the risk that one or more parties to the fraud would become bankrupt by the time the case is decided.

With respect to aiding and abetting liability, I understand that certain proposals would limit such liability to parties who act with deliberate intent to defraud for their own personal benefit, excluding ordinary compensation for services provided. If so, such a rule would essentially limit aiding and abetting liability to those circumstances where a defendant receives a bribe. I expect that few cases involving professional advisers would meet this test.

Q.8.C. On several occasions the SEC has stated that the current statute of limitations for private securities fraud actions is too short, and has urged Congress to enact a statute of limitations allowing cases to be brought within two years after a discovery of the violation, up to five years after the violation occurred. Do you agree that the statute of limitations for private securities fraud actions should be lengthened?

A.8.C. I agree that a two-year/five-year statute of limitations would give defrauded investors a more reasonable time to seek compensation for their losses, and that it would not necessarily encourage the litigation of stale claims. The current statute of limitations prevents meritorious cases from being filed after three years. Securities fraud is inherently complex, and a carefully concealed fraud may not be discovered for a number of years. I understand that the Commission itself has noted that a significant number of its own fraud cases, including the case against Drexel Burnham Lambert, were brought more than three years after the violations occurred. It is even more difficult for private investors, who do not have the resources available to the Commission to uncover securities fraud, to meet a three-year standard.

Q.9. Regulation of securities is shared between the SEC at the Federal level and the various State securities regulators. Would greater coordination between the SEC and the State securities regulators promote efficient regulation? Do you have any plans to promote such coordination?

A.9. I believe that coordination between the SEC and the State securities regulators is important to improve the effectiveness of the Federal/State regulatory system, and to reduce the burden of multiple registration requirements on broker-dealers and investment advisers. The Commission is working closely with the NASD and the States to improve uniformity in registration requirements, promote the use of uniform forms, and to enhance the Central Registration Depository operated by the National Association of Securities Dealers, Inc., ("NASD") to increase its effectiveness.

The Commission staff has worked very closely over the last year with the North American Securities Administrators Association ("NASAA"), the NASD and the New York Stock Exchange with regard to planning a coordinated Federal, State and SRO examination sweep to test for broker-dealer compliance with the new Penny Stock Rules. This examination sweep, which began on Monday, July 12, 1993, is the largest coordinated regulatory project ever undertaken by the Commission. In this regard, 40 State securities commissions, 12 NASD District Offices, the Commission's nine Re-

gional Offices and the New York Stock Exchange all will be conducting broker-dealer examinations as part of this project.

I believe that the cooperation between the SEC, States and SROs on this and other regulatory projects, such as the 1990 examination sweep with the State of Florida and the NASD to test for broker-dealer compliance with Exchange Act Rule 15c2-6 (the "Cold-Call" Rule) is an excellent example of how well coordination with State securities officials can work.

These joint SEC-State regulatory projects also improve communication and understanding between the SEC and the States and maximize the use of limited regulatory resources.

Q.10. What is the current condition of the Securities Investor Protection Corporation? Please describe how it is funded and how it is structured.

A.10. The Securities Investor Protection Corporation ("SIPC") is funded by assessments on its members and the interest earned on the investment of that assessment revenue in United States Government securities. Based on the latest available information, the SIPC fund appears to be well capitalized in comparison with any reasonably foreseeable broker-dealer failures. As of June 30, 1993, the SIPC fund totalled approximately \$754.2 million in cash and U.S. Government securities. This is the highest level since SIPC's inception in 1970. Further, in late 1991, SIPC, with Commission approval, adopted a bylaw that will enable the SIPC fund to reach \$1 billion in early 1997. In addition, SIPC has access to a \$1 billion line of credit established by SIPC with a consortium of banks. This line of credit has never been drawn upon. Furthermore, SIPC has the statutory authority to borrow up to \$1 billion from the United States Treasury Department through the Commission. No borrowing has ever been made from the Treasury under this authority. A 1990 study, commissioned by SIPC, concludes that SIPC has sufficient resources and liquidity to handle multiple broker-dealer failures, including the hopefully unlikely event of a large broker-dealer failure.

The adequacy of the SIPC fund is directly related to the regulatory environment of the securities industry. A recently completed report of the United States General Accounting Office ("GAO"), entitled, *Securities Investor Protection Corporation: The Regulatory Framework Has Minimized SIPC's Losses*, states that "[t]he regulatory framework has successfully limited the number and size of SIPC liquidations."¹ The operation of the Commission's net capital and customer protection rules, the examination and oversight mechanism of the Commission and self-regulatory organizations, and annual auditing by independent public accountants have permitted the Commission and the self-regulatory organizations successfully to wind down broker-dealers, including large firms such as Drexel Burnham Lambert Inc. and Thomson McKinnon Securities, Inc. without the need for SIPC intervention. No taxpayer funds have ever been used to support the SIPC program.

¹That report also states that "GAO believes that SIPC officials have acted responsibly in adopting a financial plan that would increase fund reserves to \$1 billion by 1997" and that the SIPC "board's strategy represents a responsible approach to anticipating funding demands that may be placed on SIPC in the future."

In conclusion, because of the strong regulatory regime applicable to broker-dealers, the strong capital position of broker-dealers, SIPC's historical experience in liquidating broker-dealers, and the Commission's experience in winding down large broker-dealers without the need for SIPC intervention, it appears that the current resources of SIPC are adequate to handle any reasonably foreseeable brokerage failures. At the same time, however, I, of course, believe that the adequacy of these safeguards requires vigorous ongoing oversight by the Commission.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR D'AMATO FROM ARTHUR LEVITT, JR.

Q.1.A. Section 28(e) of the Securities Exchange Act of 1934 permits investment managers to pay a higher than average rate of commission for brokerage and research services if the manager determines in good faith that the commission is "reasonable." Do you think this provision creates a conflict of interest between the investment manager and the client?

A.1.A. Section 28(e) permits an investment manager to cause a client to pay higher brokerage commissions than it might otherwise pay in order to obtain research services (even if that research may not benefit that particular client), if the investment manager determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided. Even if the research services benefit the client, the money manager would be relieved of the obligation to produce the research itself or purchase it with its own money. Thus, there is a potential conflict between the client's interest in obtaining the lowest possible brokerage costs and best possible execution, and the manager's interest in obtaining research paid for by the client's commission dollars.

Q.1.B. Should the Commission require that these "payments" be disclosed to the client?

A.1.B. The Commission currently requires non-quantitative disclosure by registered investment advisers about advisers' brokerage practices and the conflicts that arise from soft dollar payments. These disclosures are required to be in the adviser's brochure which must be delivered to prospective clients. I am aware that there are proposals to require investment advisers to report periodically to their clients the actual amount of brokerage commissions allocated for research and the value of the research obtained. While I have not fully analyzed this issue, I believe additional disclosure of this type should be carefully considered.

Q.1.C. It is not uncommon for institutional investors, such as pension funds, to hire a consultant to recommend investment managers. Further, the consultants often have some type of compensation arrangement with certain investment managers for directing clients to the managers. Do you think this practice also creates a conflict of interest between the consultant and the client?

A.1.C. This practice creates a potential conflict of interest because there is an incentive for the consultant to make recommendations based upon the compensation received from the investment man-

agers rather than the interests of his or her client, the institutional investor.

Q.1.D. Should the Commission require that this practice and the "payments" be disclosed to the client?

A.1.D. Although consultants registered under the Investment Advisers Act of 1940 are currently required to disclose all conflicts of interest with their clients, including any payments from investment managers, I believe that, given the growing importance of pension funds as investors in the market, the activities of pension fund consultants deserve additional review to see if further disclosure or other regulation is warranted.

Q.2. In recent testimony before the Subcommittee on Telecommunications and Finance, the General Accounting Office recommended that the SEC monitor the effects of market fragmentation on investors and U.S. securities markets. The GAO also recommended that the SEC consider whether an order exposure rule is needed. What is your opinion of these recommendations by GAO? Do you expect to follow any of these recommendations? If so, how? If not, please explain why not.

A.2. I understand that the Commission is preparing a response letter to the GAO testimony. In addition, the Division of Market Regulation's ("Division") Market 2000 Study is considering market fragmentation and related issues such as order exposure. I will make sure that the Division carefully considers these issues in the context of the Market 2000 Study.

I have been informed by the Commission staff that, in connection with their study, they have been collecting information on the extent and impact of market fragmentation. In addition, I understand that the Division receives a constant stream of information that, taken as a whole, enables it to assess the effects of fragmentation on the equity markets. While empirical data on trading prices and the spread between bid and ask prices would be useful, it only would add one more piece of information to the process without necessarily becoming the determining factor. Moreover, even with empirical data, the effects of market fragmentation are not easily quantifiable, and the issues arising in connection with it cannot be solved solely on an empirical basis. Nevertheless, the recommendation has merit, and I will ask the Division to consider how best to incorporate it into its program.

The GAO noted in its testimony that the Commission twice proposed an order exposure rule in 1982. When the Commission issued these proposals, it did not reach any conclusions regarding the advisability of an order exposure rule. In response to the initial proposal, the commentators were divided on whether such a rule was needed.

Several commentators have suggested, in response to some of the issues raised in the Market 2000 Study, that the Commission reconsider proposing an order exposure rule. GAO has recommended that the Commission consider whether such a rule is needed. I will make sure that the Division considers the need for an order exposure rule as part of the Market 2000 study. Because such a rule should be considered in conjunction with other potential regulatory initiatives to be discussed in the Market 2000 study, it would be

premature for me to express an opinion with respect to the advisability of such a rule at this juncture.

Q.3. Apparently some dealers pay brokers for directing customer orders to that dealer. What is your opinion of this practice? Do you think this practice results in a higher cost of the transaction to the customer? If so, should this practice be permitted to continue? Should the Commission require that this practice be disclosed to the customer?

A.3. I think it is appropriate for the Commission to address payment for order flow practices. The practice of payment for order flow raises many concerns that are currently being reviewed by the Commission. The various critics of this practice suggest diverse remedies, including enhancing disclosure of the practice, requiring brokers and dealers receiving payments for order flow to pass those payments through to their customers and banning the practice outright. Those with a more favorable view of the practice, suggest that payment is one of many types of inducements for order flow, and cannot be evaluated independently of those practices.

Proponents of payment for order flow suggest that the competition facilitated by payment for order flow ultimately yields the best execution for the customer. They argue that these practices allow wholesale dealers to compete with exchanges and vertically integrated firms and that this competition has resulted in a reduction of execution costs in all markets and the use of more efficient order routing and trade execution systems. Opponents of payment for order flow, however, contend that the practice may reduce market maker quote competition for orders. They argue that to the extent that a market maker receives order flow regardless of the competitiveness of its quote, the market maker has less need to seek order flow through competitive quotes. The theoretical result could well be a widening of spreads, thus reducing the pricing efficiency of the market and raising costs of trades for those securities.

The Division of Market Regulation is currently addressing the practice of payment for order flow in its Market 2000 Report. After careful review of the many issues raised by the various commentators, the Division will recommend a course of action to the Commission. I will ensure that this issue is fully considered by the Commission. At the very least, however, I believe a strong case can be made for providing enhanced disclosure of these practices. In addition, I recognize that some believe disclosure alone is an adequate response; I will consider these issues in the context of the Market 2000 study.

Q.4.A. There has been much discussion about the SEC permitting world class foreign issuers to list on U.S. exchanges with different disclosure standards than U.S. companies. What is your opinion of the proposal of the New York Stock Exchange to modify disclosure requirements for world class foreign securities traded on U.S. exchanges?

A.4.A. The preeminence of the U.S. securities market and financial services industry is a national asset that annually provides hundreds of billions of dollars to finance businesses, both domestic and foreign. As I testified before the Committee, I believe the enduring strength and vitality of the U.S. public capital market is based on

the principles of openness, integrity, fair dealing and full disclosure that have governed the American capital market for the last 60 years. As a result, the U.S. capital market is the deepest, most liquid and most efficient market in the world, with by far the greatest level of individual investor participation.

The strength of the U.S. market is recognized around the world. In the last two and half years, 220 foreign companies from 28 countries have registered \$79.9 billion of public offerings with the Commission. Indeed, while other major public markets have shown little growth, and in a number of cases decline, in foreign listings over the last two years, 174 foreign companies from 27 countries have entered the U.S. public market for the first time, bringing the current number of foreign companies reporting to the SEC to 551.

I agree that we must not only maintain, but enhance, the competitiveness of the U.S. financial markets. I am committed to doing so by enhancing the efficiency and lowering the costs of capital raising for all issuers, American as well as foreign, consistent with investor protection.

I have reservations about a proposal to waive basic disclosure and financial statement requirements for certain foreign companies and accept instead home country disclosures or financial statements without regard to the adequacy of the information that would be provided to American investors. American investors would be prejudiced where such a waiver resulted in the non-disclosure of material information. Of equal concern is the prejudice to American companies seeking to raise capital in their home market if foreign issuers were excused from the substantially greater disclosure, accounting and auditing requirements applicable to domestic companies.

Q.4.B. Proponents of the NYSE's proposal argue that U.S. investors can trade foreign securities now in the "pink sheet" market and that investors would be better served by having these foreign securities traded in a more regulated, more transparent markets. Would U.S. investors in foreign securities be better protected if the SEC adopted the NYSE proposal? Does the NYSE proposal result in less disclosure to investors or just different disclosure?

A.4.B. As noted in the answer to the foregoing question, I believe a broad waiver of disclosure requirements for a class of foreign issuers without regard to the disclosure, accounting and auditing standards otherwise applicable, raises substantial investor protection concerns including dangers of non-disclosure of material information.

As you note, foreign issuers like domestic issuers, can choose to stay out of the U.S. public markets (the national exchanges and NASDAQ) while their securities are traded in the pink sheet market, without having to register their securities with the SEC and file reports with the Commission. I believe that the balance struck by Congress and the SEC in the Federal securities laws is the right one. Access to the national securities markets—through listing on the exchanges or NASDAQ, or through a public offering—is open to any issuer, domestic or foreign, large or small, that is willing to assume the responsibility of full disclosure mandated by the Federal securities laws. Investors in the U.S. public markets are as-

sured that those issuers will be required to provide full disclosure subject to Commission oversight. Companies that do not wish to take on the responsibility of full disclosure forego the benefits of full access to the breadth and liquidity of the U.S. public capital market.

Q.5. There has been growing concern about market risk associated with derivative products trading and whether there is a need for additional regulation. One suggestion has been to eliminate risk through a "netting" arrangement such as a collateralized swaps clearing house. Do you think there is adequate regulation of derivatives product trading? If not, what more should be done? Do you think a clearing house for swaps would be an effective means of minimizing market risk? Is it a practical approach to minimizing risk in derivatives trading? What would you recommend?

A.5. The over-the-counter derivatives market has grown to a significant size (estimated at close to \$5 trillion in notional amount). The participants in this market insist that the actual risks in the market are far smaller than the total notional amount, and that they have developed effective credit controls to manage these risks. Nevertheless, the market has grown dramatically and perhaps is not fully understood by the top management of many of the institutions using the products.

There are several studies on derivatives underway by Government agencies, the General Accounting Office, and Group of Thirty that will be issued in the next few months. I will be very interested in the results of these studies and their analysis of whether a different regulatory approach is needed. In addition, the Commission recently issued a concept release on the net capital treatment of derivatives, and the responses to the release should be helpful in structuring the Commission's program for these products.

It has been argued that a clearing house, subject to appropriate regulatory oversight, could promote efficiency and reduce systemic risk to the benefit of all market participants if it is structured with appropriate legal, credit and operational controls. At the same time, however, others have argued that a clearing house is unnecessary at this time because individual firms have the best incentive to monitor the credit worthiness of their counter parties. In balancing these issues, I look forward to the various forthcoming studies to help assess these arguments.

In addition, recent amendments to the Bankruptcy Code and revisions to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") have helped to validate netting contracts among financial institutions and provide certainty that netting contracts will be enforced in the event of the insolvency of one of the parties to the contract. In addition, the Federal Reserve Board has recently proposed rules that would expand the category of entities that are considered financial institutions under FDICIA.

I believe that, while some further improvements always are possible, there are adequate regulatory safeguards currently in place for exchange-traded derivatives such as options and futures. I am less certain of the need for further safeguards for the growing market for over-the-counter ("OTC") derivatives. As you know, this is a subject area of great concern not only to the Commission, but to

other regulators both nationally and internationally. I believe that there is a consensus among regulators that, while the potential systemic effects from these products cannot be ignored, responsible regulators should make every effort to better understand the actual size and dynamics of this market, and likely systemic risks from these products, before proposing any additional regulatory initiatives in this area.

Although hard statistical information in this area is extremely limited, it appears that the OTC derivatives market has become extremely large and is continuing to grow rapidly, heightening concerns that major disruptions in this OTC institutional market have at least the potential to "flow back" to disrupt trading in markets in U.S. equities and equity derivatives. At the same time, much of this OTC business is conducted by firms in entities outside of their registered broker-dealers, and, therefore, outside of the Commission's oversight.

In this regard, the Commission recently issued a concept release which was designed to address the nature of the existing regulatory structure as it applies to derivative products under the Commission's broker-dealer net capital rule.

Under the net capital rule, which applies to all broker-dealers registered with the Commission, broker-dealers are required to maintain certain amounts of liquid assets, or net capital, based on the amount and type of business the firm transacts. The net capital rule currently assesses significant charges for transactions in OTC derivative instruments.

Among other reasons, this stringent treatment has been a factor in decisions by holding companies to engage in certain derivative products which they do not consider dealer securities activities (e.g., interest rate swaps) in entities other than in a broker-dealer registered with the Commission. The Commission has access to information concerning the activities of material broker-dealer affiliates that conduct activities in derivative products through the Commission's risk assessment recordkeeping and reporting rules, which were adopted pursuant to the Market Reform Act of 1990. Thus, we believe the approach taken in the net capital rule, augmented by the risk assessment program, presently provides an adequate system of regulating broker-dealer activities in derivative products.

In order to further explore the regulatory issues regarding derivative products, the concept release identified two major risks associated with derivative products: market risk (the risk of adverse price fluctuations); and credit risk (the risk of counterparty non-performance). The Commission's concept release was designed to solicit public comment on the treatment, including credit risk concerns, of derivative products. One of the items specifically identified for comment in the release was the effect that "netting" arrangements among counter parties can have in reducing overall risks. Generally, we believe netting arrangements have the effect of reducing the overall credit risk exposure in derivative products, but will have no effect on the market risk element of derivative risk.

Once the public comment period for the release has ended, and the Division of Market Regulation has evaluated the comments, the Commission will consider what, if any, modifications to existing

broker-dealer capital regulation are warranted. I believe this effort is a responsible and measured effort to address regulatory improvements without stifling innovation.

Q.6. Since small businesses are the engine of economic growth and job creation, it is essential that they have access to credit and capital. I have introduced legislation to facilitate the securitization of small business loans by removing certain regulatory impediments that impose unnecessary costs or delay. Do you think that Congress should expand the availability of credit to small businesses by facilitating securitization and the development of a secondary market for small business backed securities? Do you think that enabling the private sector to securitize small business loans is a better approach than establishing a new government sponsored enterprise to perform this function?

A.6. Small business is critical to the growth of our economy, and, therefore, I support measures to increase the ready flow of capital to small business while maintaining investor protections and sound markets. Securitization has been a highly effective means of increasing the flow of capital to the mortgage markets, and I believe that similar securitization also should be used to increase the credit available to small businesses.

As part of its Small Business Initiative adopted last fall to facilitate the securitization of financial assets, particularly small business loans, the Commission adopted revisions to the regulations under the Investment Company Act of 1940 to exempt investment grade asset-backed financings from the 1940 Act and revisions to regulations under the Securities Act of 1933 to extend shelf registration to such securities. I fully support such efforts and believe that it is important to eliminate unnecessary regulatory impediments to private sector securitization of small business loans.

I understand the S.384 is intended to encourage securitization of small business loans by eliminating unnecessary impediments to the markets for these securities. I suspect that other measures will be needed as well to spur small business lending, and I support S.479, the Small Business Incentive Act of 1993, designed to encourage new venture capital investment in small businesses.

The issue of whether the government should create a new government-sponsored enterprise to promote securitization is a complex one involving budgetary and other policy issues outside the responsibilities of the SEC.

Q.7. The Federal securities laws require securities firms to supervise employees and provide certain information to the SEC and the self-regulatory organizations. The "Privacy for Consumers and Workers Act for 1993" imposes limitations on how information can be obtained and used. Do these limitations contravene the Federal securities laws? Do you think the legislation will constrain the ability of securities firms to establish an effective internal compliance system? What impact would this bill have on the SEC's oversight activities? What impact would this bill have on the SEC's Electronic Data Gathering Analysis and Retrieval System? What is the SEC's position on this bill?

A.7. The "Privacy for Consumers and Workers Act of 1993" would impose major impediments on securities firms' ability to maintain

internal compliance systems, and would constrain their operation of statutorily-required policies and procedures to prevent insider trading. It also would seriously impair the Commission's access to the books and records of self-regulatory organizations and other registered securities entities, and would hamper the examination and enforcement activities of the Commission and the self-regulatory organizations.

For these reasons, I support a complete exemption for registered securities entities such as self-regulatory organizations, broker-dealers, investment advisers, clearing agencies, and transfer agents, and their financial affiliates, from the provisions of the bill.

I am unable to address the bill's impact on EDGAR because, as I have certified in my nomination papers, I will be recused from participating in all matters involving EDGAR for a period of one year after I take the oath of office. I am a Director of BDM Holdings Inc., which is the primary contractor operating the Commission's EDGAR project. I also own stock in BDM. Therefore, I was advised that the government-wide Standards of Ethical Conduct for Employees of the Executive Branch require my recusal for one year. I note that if I am confirmed, upon taking the oath of office, I intend to divest my holdings in BDM and resign from the Board.

Because I will be recused from matters involving EDGAR, I intend to delegate to the Senior Commissioner my authority to make decisions concerning EDGAR. The Senior Commissioner at this time is Acting Chairman Mary Schapiro, who has agreed to act in my stead. Consequently, I believe that consistent with my anticipated recusal, I am unable to answer these questions. However, if you desire not my views, but information concerning public dissemination of information and EDGAR, I would be pleased to transmit your questions to Acting Chairman Schapiro, who has agreed to answer them.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR JIM SASSER FROM ARTHUR LEVITT, JR.

Q.1. Mr. Levitt, as you may be aware, American investors in Lloyd's of London sponsored insurance syndicates are suing Lloyd's, claiming that they were not provided disclosure of information comparable to the information required to be given to investors in the United States under the Federal securities laws. The 110 investors involved in the suit are among 2,500 American investors in Lloyd's sponsored-syndicates. These syndicates have raised over \$1 billion in capital for Lloyd's which has been experiencing losses since the mid-1980's.

After a recent dismissal by the U.S. Court of Appeals for the Second Circuit, the investors are expected to file a certiorari petition to the United States Supreme Court, seeking to reverse the Second Circuit's ruling. The dismissal by the Second Circuit affirmed a district court's dismissal of this case on the grounds that the forum selection and choice-of-law provisions in the standard Lloyd's documentation may be judicially enforced so as to cause the American investors to waive their rights under the Federal securities laws, thereby leaving them with only such remedies as they may have available under English law in England.

Q.1.A. Mr. Levitt, are you familiar with this situation? Do you know if the Securities and Exchange Commission (SEC) has investigated this matter? If so, do you know the status of that investigation?

A.1.A. I regret that I cannot respond to your question, because I understand that it is the policy of the SEC not to comment on the existence of an investigation.

Q.1.B. If confirmed to be SEC chairman, do you intend to have the SEC pursue an investigation? Would you consider having the SEC file an amicus brief with the U.S. Supreme Court?

A.1.B. As to an investigation, I have not formed any final views on whether, in light of the recent court decisions and other factors, an investigation would be appropriate.

As to *amicus* participation, I understand that the Solicitor General's Office, which oversees all Supreme Court litigation for the SEC, generally does not file *amicus* briefs regarding whether the Court should grant certiorari unless the Court requests that the Solicitor General express the views of the United States. If the Supreme Court makes such a request in a case involving securities issues, the Solicitor General generally seeks the views and assistance of the SEC, and the SEC generally assists in drafting the brief. If the Supreme Court should grant certiorari in this case, the Commission would consider whether to recommend to the Solicitor General that an *amicus* brief be filed on behalf of the SEC.

Q.1.C. What are your views concerning future SEC policy regarding waivers of U.S. investor rights and remedies by foreign issuers? Should foreign issuers that market securities to U.S. investors be subject to SEC oversight? Should that oversight differ from oversight of U.S. issuers?

A.1.C. Under the Federal securities laws investors cannot waive statutory protections. In the international context, there are often difficult questions about the jurisdictional reach of the U.S. securities laws and whether U.S. law applies to a particular transaction.

Foreign issuers that market securities to U.S. investors in the United States are, and of course should be, subject to SEC laws and oversight. U.S. investors have the same basic rights and remedies under the U.S. securities laws whether they buy American or foreign securities in the U.S. market.

Q.2. As you may know, the House of Representatives is expected to consider the "Securities and Exchange Commission Authorization Act of 1993," H.R. 2239 in the coming weeks. This legislation includes provisions for a full cost recovery system for the SEC. This system authorizes the SEC to collect fees to offset the Commission's appropriation and provide general revenue to the Treasury for deficit reduction purposes. Do you support this legislation? In particular, do you support the self-funding system? What are the benefits of such a system? And, under this system, would SEC funding remain subject to the appropriations process?

A.2. I strongly support self-funding for the Commission and view such a funding arrangement as critical to the continuing vitality of the agency.

In the last few years, the Commission has struggled to keep pace with the tremendous growth in its oversight responsibilities, despite scarce resources. In view of the increasing pressure that the SEC will continue to face in fulfilling its responsibilities, I believe it is critical to ensure that the SEC's funding is adequate to meet the significant challenges it now faces and will confront as the U.S. markets continue to evolve.

Since January 1989, the SEC has sought congressional approval to change its funding status from appropriated to self-funded, like most of the other financial regulatory agencies. Under a self-funding arrangement, the SEC would be authorized to use fee collections to fund all agency operations rather than rely on annual appropriated funds. The SEC would continue to follow both the authorization and appropriation procedures.

As I stated at my confirmation hearing, an SEC which is underfunded and understaffed could undermine the vitality and integrity of the capital markets, which would, in turn, harm the U.S. economy.

Q.3. The Financial Accounting Standards Board (FASB) recently released an exposure draft of a new accounting principle which will require companies which issue stock options to their employees to take a charge to their earnings. I am concerned about the impact of this proposal on the ability of smaller, emerging growth companies to attract and motivate employees at all levels of the organization.

According to some studies, approximately 60 to 70 percent of these kinds of companies offer options to all of their employees. However, if these companies were required to charge earnings for options issued, many of these companies might not be able to afford to continue this practice, and might reduce the number and types of employees to whom options are granted. For instance, stock options might be reserved for top level executives, and mid-level and lower-level employees might not be offered stock options at all. Moreover, many of these companies rely on stock options as a recruiting tool. Start-up, cash-poor companies in the biotechnology or the electronics industry, for example, compete for the same pool of talented scientists, engineers and technicians as more established firms. These companies use stock options to attract employees willing to share the risks and the rewards.

Do you know whether the FASB gave any consideration in developing this proposal to the issues of the broad use of stock options in emerging growth industries and their use by those industries in attracting personnel?

What authority does the SEC have to review this proposal? Will the SEC take these issues into account in its review?

A.3. I am well aware of the importance of stock options to American business. In particular, this compensation vehicle is key for small and young businesses that are the lifeblood of the American economy but may not be able to offer cash compensation adequate to attract the talent that they need.

The FASB's recent proposal, which would require recognition of compensation expense equal to the fair value of the option at the date the option was granted, has been extremely controversial.

Critics have stated that it is difficult to measure the value of stock options, particularly for options that are not transferable and have restricted exercisability. They have suggested alternative approaches, based on disclosure and patterned after the Commission's changes to the rules governing disclosure of senior executive and director compensation.

Significantly, the FASB's extensive process for considering accounting standards is far from concluded. FASB has just published an exposure draft and comments on that proposed standard may be submitted until the end of 1993. Two public hearings will be held by the FASB on the east and west coasts following the close of the comment period. Thus, there will be every opportunity for all members of the public, including analysts and other users of financial statements, affected public companies, and accounting firms to express their views on the proposal and the effects of the proposal on U.S. businesses and the economy, and offer alternative approaches. FASB also will engage in extensive field testing.

I believe firmly that the FASB process should run its course. The American accounting standards setting process has worked well. FASB is a highly respected, expert and independent body that has acted as the primary accounting standard setter since 1973. The Commission, pursuant to the Federal securities laws, has full authority to set accounting standards for publicly held companies. I can assure you that the Commission will actively oversee the FASB's process and all FASB's actions with respect to stock option accounting, with a view to assuring that any resulting accounting standard is consistent with the protection of investors and the public interest. The Commission, like the FASB, will consider carefully the comments received on the FASB's exposure draft and take those into account in exercising its oversight authority.

Various bills have been introduced in Congress both favoring and opposing the expensing of options. Legislation on this issue, in my view, would not be wise. Accounting standards are best set by the process we have today.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RICHARD SHELBY FROM ARTHUR LEVITT, JR.

Q.1. The Securities and Exchange Commission has been criticized for its regulation of public utility holding companies under the Public Utility Holding Company Act (PUHCA). The Senate Energy Committee held a hearing in May in which Commission oversight was characterized as lax and ineffective in protecting consumers against the activities of public utility holding companies.

Q.1.A. What is your response to this criticism?

A.1.A. The Act directs the Commission to administer the statute to protect the interests of consumers and investors, as well as the general public interest in a sound electric and gas utility industry. I believe the Commission will continue to make every effort to live up to its mandate under PUHCA. In that regard, I am informed that the Commission staff recently has expanded its audit program of companies within registered holding company systems. The staff also has worked hard to cooperate with other Federal and State regulators. I understand that in its 1995 and 1996 budget request,

the Commission is seeking additional staff of 8 and 10 persons, respectively, for the Office of Public Utility Regulation, to help it fulfill its investor and consumer protection responsibilities.

Q.1.B. Could you describe the way the SEC regulates registered holding companies now and specifically, the steps the SEC takes before it approves a particular transaction? Do interested parties have an opportunity to participate in the review process?

A.1.B. PUHCA subjects registered holding company systems to pervasive economic regulation. The Commission authorizes the financings, acquisitions and intrasystem service and construction agreements of companies in these systems. The statute sets forth specific criteria that must be satisfied before one of these transactions can be approved, and the Commission reviews the proposed transaction for compliance with these criteria. For each transaction, there is an opportunity for public comment.

Q.2. Another issue which arose at that hearing concerned the disposition of the Ohio Power case, where the Federal Energy Regulatory Commission (FERC) attempted to assert its jurisdiction over a fuel supply transaction and was denied by the Court of Appeals. This decision was cited as one basis for the introduction of legislation to transfer jurisdiction over PUHCA to FERC.

Q.2.A. What is the Commission's analysis of the *Ohio Power* situation? Did the Commission approve a contract that was unfair to consumers? Were interested parties precluded from registering their concerns about the transaction?

A.2.A. The Commission issued its orders during the energy crisis of the 1970's, when captive coal operations were thought desirable to provide a stable and secure fuel supply to system operating companies. Both investors and consumers were expected to benefit.

The proposed transactions were published for public comment. No comments were received, from the FERC or other parties. The *Ohio Power* court of appeals decision noted that the Commission, in its orders, properly discharged its statutory authority. I am aware that the Commission has stated that it will do everything within its power to minimize the impact of the *Ohio Power* decision on ratemaking and to cooperate fully with the FERC to limit jurisdictional conflict, and I fully support that position.

Q.2.B. What is your opinion on the transfer of jurisdiction to FERC? Is it necessary to ensure that consumers are adequately protected?

A.2.B. I understand that under the two previous administrations, the Commission supported a transfer of the responsibilities under the Act. Before I take a position on a transfer, I will consult with my fellow Commissioners, the staff of the Commission, and the Federal Energy Regulatory Commission. Even if no transfer is effected, the Commission should do all it can to coordinate with the Federal Energy Regulatory Commission.

Q.3. What is your opinion of the proposal by the Financial Accounting Standards Board (FASB) to require companies to take a charge to earnings for stock option compensation? The FASB is an independent organization and the Commission has a tradition of re-

specting this independence. However, if FASB made a decision that was considered questionable and potentially damaging to the economy, would the Commission review this decision?

A.3. I am well aware of the importance of stock options to American business. In particular, this compensation vehicle is key for small and young businesses that are the lifeblood of the American economy but may not be able to offer cash compensation adequate to attract the talent that they need.

The FASB's recent proposal, which would require recognition of compensation expense equal to the fair value of the option at the date the option was granted, has been extremely controversial. Critics have stated that it is difficult to measure the value of stock options, particularly for options that are not transferable and have restricted exercisability. They have suggested alternative approaches, based on disclosure and patterned after the Commission's changes to the rules governing disclosure of senior executive and director compensation.

Significantly, the FASB's extensive process for considering accounting standards is far from concluded. FASB has just published an exposure draft and comments on that proposed standard may be submitted until the end of 1993. Two public hearings will be held by the FASB on the east and west coasts following the close of the comment period. Thus, there will be every opportunity for all members of the public, including analysts and other users of financial statements, affected public companies, and accounting firms to express their views on the proposal and the effects of the proposal on U.S. businesses and the economy, and offer alternative approaches. FASB also will engage in extensive field testing.

I believe firmly that the FASB process should run its course. The American accounting standards setting process has worked well. FASB is a highly respected, expert and independent body that has acted as the primary accounting standard setter since 1973. The Commission, pursuant to the Federal securities laws, has full authority to set accounting standards for publicly-held companies. I can assure you that the Commission will actively oversee the FASB's process and all FASB's actions with respect to stock option accounting, with a view to assuring that any resulting accounting standard is consistent with the protection of investors and the public interest. The Commission, like the FASB, will consider carefully the comments received on the FASB's exposure draft and take those into account in exercising its oversight authority.

Various bills have been introduced in Congress both favoring and opposing the expensing of options. Legislation on this issue, in my view, would not be wise. Accounting standards are best set by the process we have today.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CAROL MOSELEY-BRAUN FROM ARTHUR LEVITT, JR.

Q.1. What are your views on the recent proposal devised by the Chicago Mercantile Exchange to consolidate all of the financial regulators into one super regulator with cabinet status? What are your views on regulatory consolidation generally?

A.1. Proposals to consolidate independent regulatory agencies within the Administration such as the Chicago Mercantile Exchange proposal should be carefully considered before they are implemented. Whether any such proposal is considered or not, I think it is important for the heads of the respective agencies to work in a candid and cooperative manner to address specific issues as they arise so that the U.S. financial services can continue to compete effectively in a manner consistent with the protection of investors and the maintenance of fair and orderly markets. This will take some good will and compromise on all sides and I am committed to that process.

The consolidation of regulation of financial products into a single agency does have some potential benefits. It can enable regulators to monitor better for systemic risk across products and markets and reduce the potential for uneven regulation between markets. Nevertheless, it may be more productive to address first the statutory differences between the financial markets before undertaking a massive regulatory restructuring.

The CME proposal would combine the securities, commodities, and banking independent agencies as well as some functions of the Department of Labor and Federal Reserve Board into a single cabinet department. I have only briefly read the proposal, and would like to take some time to study it further. Nevertheless, my preliminary reading raises several concerns for me about whether such a proposal should be used as the model for regulatory consolidation. First, I am concerned that such a large agency, burdened by the responsibility for oversight of the banking system and pension funds, would not keep pace with the innovations in the securities and futures markets. Second, I am concerned that the proposed super agency could diminish the effective, independent, and vigorous enforcement and market oversight program of the Commission. Regulatory consolidation may sound appealing, but I would want to make sure that it does not compromise the protection of investors or the maintenance of fair and orderly markets or create more problems than it was intended to solve.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CHRISTOPHER S. BOND FROM ARTHUR LEVITT, JR.

Q.1. Chairman Breeden believed that states should be preempted from *regulating* the securities laws—a view not favored by the MO State securities Commissioner. What is your view of State securities regulation—not enforcement about the regulation of securities offerings, investment companies, broker-dealers and investment advisers by the States?

A.1. As you know, most large companies, whose stock is traded on an exchange or NMS-NASDAQ, are exempt from State registration requirements governing securities offerings. For small and developing companies trying to raise capital, however, compliance with the securities laws of all the States and the Federal Government presents one of the most significant costs. Coordination and elimination of redundant or conflicting requirements among State laws, as well as with Federal law, is key to lowering the regulatory costs incurred in the capital raising process for those small businesses.

I am committed to working with the State securities regulators to further coordinate and streamline the regulation of securities offerings, registered and exempt, consistent with the protection of investors.

State registration of broker-dealers is an important element of the State securities commissions' supervision and enforcement program regarding broker-dealer activity within a particular State. At the same time, it creates substantial duplication of Federal and self-regulatory organization registration requirements. I believe that efforts should be increased to streamline the registration process through encouraging uniform registration requirements and the use of uniform forms, as well as to enhance the Central Registration Depository operated by the National Association of Securities Dealers, Inc., to reduce the burdens of multiple registrations. Moreover, greater coordination on direct regulation of broker-dealers should be sought.

With respect to investment companies and investment advisers, State regulators are often the first to receive investor complaints that identify areas of investor confusion or troublesome local sales practices. This is particularly true in the case of investment advisers, the large majority of whom do not operate at a national level. Regular meetings and information sharing enables both Federal and State regulators to identify and address significant problems in the investment company and investment adviser industries. It will be important for the Commission to continue to work closely with the State securities regulators to see that investors remain adequately protected and that Federal and State regulations become as uniform as possible.

Q.2. What could the SEC under your direction do to improve the coordination of regulatory matters with the States—in particular—investment adviser and broker-dealer exams and the review of securities offerings?

A.2. There are numerous recent examples of successful coordination between the SEC and the States. In the area of securities offerings, for example, the Uniform Securities Act, which is the basis of the State registration process in about 40 States, permits coordinated registration among the Commission and the States. Similarly, the Commission has worked with the North American Securities Administrators Association ("NASAA") in developing the Uniform Limited Offering Exemption (ULOE), which has been adopted in some form by more than half the States. An issuer raising capital in a State that has adopted ULOE may take advantage of a State registration exemption and a Federal exemption under Regulation D. The Commission and NASAA have continued to work together on developing greater use of ULOE, and in encouraging the States to adopt a truly uniform version of the rule.

In the broker/dealer area, the Commission staff has worked very closely over the last year with NASAA, the NASD and the New York Stock Exchange with regard to planning a coordinated Federal, State and SRO examination sweep to test for broker-dealer compliance with the new Penny Stock Rules. This examination sweep, which began on Monday, July 12, 1993, is the largest coordinated regulatory project ever undertaken by the Commission.

In this regard, 40 State securities commissions, 12 NASD District Offices, the Commission's nine Regional Offices and the New York Stock Exchange all will be conducting broker-dealer examinations as part of this project. The 1990 examination sweep with the State of Florida and the NASD to test for broker-dealer compliance with Exchange Act Rule 15c2-6 (the "Cold-Call" Rule) is another excellent example of coordination with State securities officials in this area.

In the investment adviser area, the staff of the Commission's investment adviser inspection program has a long history of actively coordinating inspections with the States. Since 1986, the Commission's investment adviser inspection staff has actively sought to involve personnel from State securities commissions in the inspection process. The Commission's staff has provided training in inspection techniques to staff of over 20 State securities commissions and has conducted many inspections on a joint basis with staff from these States. Such coordination promotes efficiency in the use of government resources and reduces the cost and disruption that inspections impose on registrants. I will encourage the staff to continue its efforts with the States and also encourage other States to work with the Commission's staff to develop further a coordinated inspection program.

I believe it is important to continue and build upon this coordination of Commission and State efforts, in order to further the efficiency of our regulations and assure strong and effective enforcement.

Q.3. How can the SEC sooner involve the States in upcoming initiatives that make changes that dramatically affect the State regulatory framework? Some examples in the past include the SEC small business initiative, off the page prospectus, and international securities offerings.

A.3. The dual system of Federal-State securities regulation can impose unnecessary costs and burdens on the capital markets unless regulators are able to work together cooperatively and effectively to harmonize regulatory requirements, while maintaining investor protection. Thus, I agree that it is important for the Commission to attempt to coordinate its regulatory efforts with the States in order to minimize conflicting or duplicative requirements.

As you know, pursuant to section 19(c) of the Securities Act, each year the Commission holds a joint conference with the North American Securities Administrators Association that is intended to carry out the policies and purposes of section 19(c). These conferences provide a valuable forum for identifying specific issues of concern in the corporation finance, market regulation, investment management and enforcement areas, and for developing ways to enhance Federal/State coordination and cooperation more generally. As noted in my answers to Questions 1 and 2, there have been a number of successful initiatives resulting from this type of cooperative effort. I believe that continuing this tradition of cooperation will promote the public interest in fair and efficient securities markets.

Q.4. What steps will the SEC take to make sure public information is made readily available to the public, particularly information that is computerized, such as CRD for broker-dealers and EDGAR

for securities offerings and reports? Could access to this information be made available through INTERNET or some similar computer network? Could terminals be made available in Federal offices around the country?

A.4. I regret that I am unable to answer these questions because, as I have certified in my nomination papers, I will be recused from participating in all matters involving EDGAR for a period of one year after I take the oath of office. I am a Director of BDM Holdings Inc., which is the primary contractor operating the Commission's EDGAR project. I also own stock in BDM. Therefore, I was advised that the government-wide Standards of Ethical Conduct for Employees of the Executive Branch require my recusal for one year. I note that if I am confirmed, upon taking the oath of office, I intend to divest my holdings in BDM and resign from the Board.

Because I will be recused from matters involving EDGAR, I intend to delegate to the Senior Commissioner my authority to make decisions concerning EDGAR. The Senior Commissioner at this time is Acting Chairman Mary Schapiro, who has agreed to act in my stead. Consequently, I believe that consistent with my anticipated recusal, I am unable to answer these questions. However, if you desire not my views, but information concerning public dissemination of information and EDGAR, I would be pleased to transmit your questions to Acting Chairman Schapiro, who has agreed to answer them.

Q.5. What steps should be taken regarding the EDGAR system to ensure one stop filing, i.e., one filing can be done to satisfy both SEC and State requirements? What steps will be taken to ensure the States access to EDGAR filed information, so that their computer system, the SRD, can function efficiently?

A.5. I regret that I am unable to answer these questions because, as I have certified in my nomination papers, I will be recused from participating in all matters involving EDGAR for a period of one year after I take the oath of office. I am a Director of BDM Holding Inc., which is the primary contractor operating the Commission's EDGAR project. I also own stock in BDM. Therefore, I was advised that the government-wide Standards of Ethical Conduct for Employees of the Executive Branch require my recusal for one year. I note that if I am confirmed, upon taking the oath of office, I intend to divest my holdings in BDM and resign from the Board.

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**RESPONSE TO WRITTEN QUESTIONS OF SENATOR CONNIE
MACK FROM ARTHUR LEVITT, JR.**

Q.1. It is my understanding that at the Senate hearing on S. 544, a bill introduced by Senator Bumpers, the SEC was accused by State regulators and consumer groups of being insensitive to consumer interests during the SEC's consideration of the *Ohio Power* case. It seems to me that the SEC can resolve many of the concerns of these other interests under current law.

Q.1.A. How have you responded to the criticism raised in the Senate Energy hearing?

A.1.A. PUHCA directs the Commission to administer the statute to protect the interests of consumers and investors, as well as the general public interest in a sound electric and gas utility industry. The Commission issued its orders in the *Ohio Power* matter during the energy crisis of the 1970's, when captive coal operations were thought desirable to provide a stable and secure fuel supply to system operating companies. Both investors and consumers were expected to benefit. The *Ohio Power* court of appeals noted that the Commission, in its orders, properly discharged its statutory authority. I am aware that the Commission has stated that it will do everything within its power to minimize the impact of the *Ohio Power* decision on ratemaking, and I support that position.

Q.1.B. Would you consider committing the SEC to be more responsive to consumer interests perhaps through conducting more formal proceedings on affiliate transactions at the time they are filed allowing intervention by other regulators, such as the States or the FERC?

A.1.B. The Commission has a statutory mandate to protect the interests of consumers. For each transaction that requires approval, there is an opportunity for public comment. Interested persons may ask the Commission to hold a hearing. Whether such a request is granted depends upon the facts or issues raised by the request. No comments were received in the *Ohio Power* matters, from the FERC or other parties.

The Commission gives weight to the comments of State and local regulators. PUHCA was intended in large part to facilitate State regulation of public utilities in holding company systems. The statute was also companion legislation to the Federal Power Act.

I fully support the Commission's efforts to work in consultation with State and Federal regulators.

Q.2. A narrow interpretation of related businesses might have been appropriate in the early days of PUHCA, but with the evolution of the utility industry and our current emphasis on promoting conservation and energy efficiency shouldn't the SEC take a more favorable view of utility investment in such programs and in fact shouldn't the commission encourage utilities to invest in such programs?

A.2. PUHCA sets forth specific criteria that must be satisfied before a registered holding company can engage in nonutility activities. The Commission and the courts have interpreted these provisions to require a functional relationship between the proposed activities and the core utility business. The Commission has deter-

mined in a number of matters that proposed transactions involving demand side management satisfied the statutory criteria.

Q.3. Under your leadership, what role will the Securities and Exchange Commission play in the impending discussion on the proposed changes to the accounting standards for stock-based compensation?

A.3. The Commission, pursuant to the Federal securities laws, has full authority to set accounting standards for publicly held companies. I can assure you that the Commission will actively oversee the FASB's process and all FASB's actions with respect to stock option accounting, with a view to assuring that any resulting accounting standard is consistent with the protection of investors and the public interest. The Commission, like the FASB, will consider carefully the comments received on the FASB's exposure draft and take those into account in exercising its oversight authority.

Q.4. Do you feel that the proposed changes to the accounting standards for stock-based compensation are necessary or appropriate?

A.4. I am well aware of the importance of stock options to American business. In particular, this compensation vehicle is key for small and young businesses that are the lifeblood of the American economy but may not be able to offer cash compensation adequate to attract the talent that they need.

The FASB's recent proposal, which would require recognition of compensation expense equal to the fair value of the option at the date the option was granted, has been extremely controversial. Critics have stated that it is difficult to measure the value of stock options, particularly for options that are not transferable and have restricted exercisability. They have suggested alternative approaches, based on disclosure and patterned after the Commission's changes to the rules governing disclosure of senior executive and director compensation.

Significantly, the FASB's extensive process for considering accounting standards is far from concluded. FASB has just published an exposure draft and comments on that proposed standard may be submitted until the end of 1993. Two public hearings will be held by the FASB on the east and west coasts following the close of the comment period. Thus, there will be every opportunity for all members of the public, including analysts and other users of financial statements, affected public companies, and accounting firms to express their views on the proposal and the effects of the proposal on U.S. businesses and the economy, and offer alternative approaches. FASB also will engage in extensive field testing.

As you know, the Commission is responsible for the accounting standards applicable to publicly held companies, and must make certain that those standards are consistent with the protection of investors and the public interest. You may be certain that the Commission will oversee the FASB process and carefully consider fully all the views and comments on the exposure draft in determining whether to accept the standard. The Commission will make that decision on the basis of the full record to be developed through the public comment and hearing process and field testing and analysis.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ROBERT F. BENNETT FROM ARTHUR LEVITT, JR.

Q.1. As you may know, in May of this year Thomas P. Hart, the Chairman of the Options and Derivative Products Committee of the Securities Industry Association ("SIA"), wrote to the distinguished Chairman of the House Energy and Commerce Committee concerning the SEC's "Phase-In Plan" for multiple trading of options. Under this plan, each calendar quarter 100 "grandfathered" options—traded on only one options exchange prior to January 22, 1990—are to become eligible for multiple trading.

In his letter, Mr. Hart states that there is no evidence that the public has benefited from multiple trading; that small orders on multiply-traded options are "not necessarily going to the best market," with many firms discussing including language in their options agreements that disclaims responsibility for providing best execution of orders; and that going to multiple trading on a widespread basis will impose substantial costs on the industry that will ultimately be passed on to the individual investor.

The letter therefore calls for a reexamination of the entire concept of multiple trading. In response, Chairman Dingell has now asked the SEC to follow such a course of action, including revisiting the need for trade-through protection and a linkage.

Do you believe that such a reexamination is warranted, and if so, should a Phase-In Plan be suspended until the study is completed?

A.1. If confirmed, I expect to discuss with Commission staff, representatives from the options exchanges, and other interested parties what changes, if any, are appropriate in Commission policies with respect to multiple trading of options, competition among exchanges, and assuring best execution of their options orders. Acting Chairman Mary L. Schapiro is responding to the inquiry from Chairman Dingell of the House Energy and Commerce Committee.

This matter involves whether and how the options exchanges and their members will adjust to the end of exclusive listing of options on one exchange, which the Commission mandated when it adopted Rule 19c-5 in 1989 following extensive notice and comment. At that time, the Commission determined that competition among exchanges in trading options would benefit public investors. Thereafter, to permit the exchanges to adjust to multiple trading and implement a system for linking the options markets, then Chairman Breeden asked the exchanges voluntarily refrain from listing any of the over 500 options that were not subject to multiple trading before adoption of Rule 19c-5 and that have come to be known as the "grandfathered options." That request was extended for more than two years. When a consensus among the exchanges regarding a linkage system was not reached, the exchanges were asked voluntarily to proceed with implementation of Rule 19c-5 in an orderly fashion, starting with 100 classes of the least actively traded options in November 1992 and generally proceeding with 100 options classes each quarter. Most recently, the Commission staff asked that the exchanges voluntarily slow that process to 50 classes of the least actively traded options in June.

Although 946 options classes (new options classes as well as 250 of the total 500 grandfathered options classes) are eligible for multiple trading, only 162 classes (17.1 percent) are, in fact, multiply-

traded. Further, none of the grandfathered options currently available for multiple trading has been multiply-traded. Thus, with only 262 options left to become available for multiple trading, it is expected that only a small percentage of the total 500 grandfathered options will actually be multiply-traded. This is consistent with my understanding that the options markets are only interested in trading the most actively traded options classes.

In assessing the need for further trade-through protections or linkages for multiply-traded options two points should be recognized. First, public customers have absolutely no opportunity for price improvement from a competing market absent the potential for multiple trading. Second, the Federal securities laws, exchange rules and fiduciary principles require broker-dealers to seek to obtain the "best execution" for their customers' orders. The anti-waiver clause of the Securities Exchange Act of 1934, Section 29(b), makes clear that this duty cannot be shifted to the individual investor.

Before adopting the rule expanding multiple trading to equity options, Rule 19c-5, the Commission weighed the reasonably anticipated benefits against the possible adverse consequences, and found that, even without a market linkage system, the benefits to investors from a competitive marketplace outweighed the possible costs. No changes, that I am aware of, have occurred since the implementation of Rule 19c-5 that would call into question the analysis on which the Commission's approval was based.

Nevertheless, in light of concerns expressed by exchanges and members firms and the desirability that the exchanges implement procedures and facilities to aid members in meeting their obligations to customers in volatile markets, the Commission staff recently encouraged the options exchanges to reduce, from 100 to 50, the number of grandfathered options to be made available for multiple trading each quarter. Fifty grandfathered options classes became available for multiple trading on June 21, 1993, the next 50 will become available on September 20, 1993.

I understand that the Commission staff is continuing to work with the options exchanges, and other options market participants, to implement procedures and system upgrades that will minimize any possible adverse effects from multiply-trading options. The staff also is prepared to assist in the development, evaluation and implementation of a linkage system should the options exchanges and broker-dealer community reach a consensus to develop such a system.

In summary, I intend to carefully review the progress the markets are making in upgrading their systems. I would give full consideration to any market need to defer the multiple trading of the more actively traded issues while balancing the need to allow the public to receive the full benefits of a competitive options environment.

Q.2. Do you have a position on H.R. 2515?

A.2. Yes, I support H.R. 2515, sponsored by Representative Wyden, to reform the unlisted trading privileges ("UTP") application and approval process. I am aware that, under the current process, the Commission is required to provide at least 10 days notice to var-

ious interested parties before the Commission can approve an application for unlisted trading privileges. This notice requirement has not been substantively amended since 1936. Because of this notice requirement, regional exchanges must wait several weeks before competing with, for example, an exchange that lists a security that was the subject of an initial public offering. In contrast, dealers in the over-the-counter ("OTC") market are able to trade that security as soon as it is listed on an exchange because there is no similar approval process for trading in the OTC market.

The regional exchanges have expressed strong interest in streamlining the UTP application and approval process in order to allow the regional exchanges to compete for order flow in securities as soon as they become listed on another exchange. H.R. 2515 eliminates any waiting period for exchanges to compete for order flow in new listings and applications for UTP would be effective on filing, subject to summary suspension by the Commission if necessary in what should be very rare cases. Finally, the proposal provides the Commission with rulemaking authority to designate additional procedures or requirements for extending UTP as necessary or appropriate for the maintenance of fair and orderly markets, the protection of investors and the public interest, or otherwise in furtherance of the purposes of the Exchange Act.

I believe that H.R. 2515 provides a workable, balanced approach that will significantly improve the UTP application and approval process.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DALE BUMPERS FROM ARTHUR LEVITT, JR.

Q.1. Several months ago I introduced S. 544, The Multistate Utility Consumer Protection Act of 1993. This bill would, among other things, transfer the regulatory jurisdiction over the Public Utility Holding Company Act (PUHCA) from the SEC to the Federal Energy Regulatory Commission (FERC). Do you support this legislation?

A.1. I understand that under the two previous administrations, the Commission supported a transfer of the responsibilities under the Act. Before I take a position on a transfer, I will consult with my fellow Commissioners, the staff of the Commission, and the Federal Energy Regulatory Commission. Even if no transfer is effected, the Commission should do all it can to coordinate with the Federal Energy Regulatory Commission.

Q.2. The Senate Energy and Natural Resources Committee held a hearing in May concerning S. 544 and the SEC's regulation of utility holding companies. The record from the hearing clearly demonstrates the SEC's lack of effective oversight of utility holding companies over the last 20 years. If the SEC were to continue to regulate holding companies pursuant to PUHCA, what would you do as Chairman of the Commission to improve oversight?

A.2. If confirmed, I will make it a priority to ensure that the Commission administers the statute to protect the interests of consumers and investors, and the general public interest in a sound electric and gas utility industry, as required by PUHCA. I understand that in its 1995 and 1996 budget request, the Commission is seek-

ing additional staff of 8 and 10 persons, respectively, for the Office of Public Utility Regulation, to help it fulfill its investor and consumer protection responsibilities.

Fundamental changes are occurring in these industries and the Commission will face new challenges in its administration of the statute. The Energy Policy Act of 1992, for example, greatly increased the extent to which holding companies may engage in activities that were severely restricted under prior law. The statute also gave the Commission primary responsibility to protect the consumers of registered systems against any adverse effects of the new ventures.

The availability of adequate resources will be critical to the Commission's success. If confirmed, I will maintain careful oversight of the agency's ability to carry out its responsibilities under PUHCA effectively.

Q.3. In addition to the subject most people identify the SEC with, as Chairman of the Commission you would be assigned the task of regulating a variety of transactions engaged in by utility holding companies. What qualifications do you have to oversee utility matters?

A.3. PUHCA is New Deal Federal securities legislation, which requires the Commission to regulate the corporate structure and financing of public-utility holding companies and intrasystem transactions. The administration of the statute requires general knowledge and experience concerning such matters as corporate structure, capital formation, financial transactions, acquisitions of assets, and potential conflicts of interest. I believe my many years of experience in and knowledge of a wide range of corporate, business and financial matters qualifies me to ensure the effective administration of the Act.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM JOSEPH E. STIGLITZ

Q.1. How confident are you that economic growth will accelerate later this year? Should Congress or the Federal Reserve be doing more to ensure such a pick up?

A.1. If we are confirmed, Dr. Blinder will, with Dr. Tyson, take responsibility for the CEA's forecasts. Based on my own reading of the data, I concur with his views concerning the future prospects of the economy, and the importance of the passage of the Budget for sustaining our growth.

Q.2. The money supply has not been a very effective guide to the Fed recently in its policy deliberations. What should the Fed be tying its policy decisions to, and how should we judge the Fed's performance?

A.2. I agree strongly that the money supply is not a very effective guide for policy. Indeed, different measures of the money supply often show markedly different movements. Velocity has proven to be relatively unstable and unpredictable during the past decade.

Monetary policy has, as its basic objectives, full employment and stable prices. Its performance should be judged on the extent to which those basic macro-economic objectives are achieved.

It is often useful to focus on "intermediate" targets or indicators. Among the most useful of these are interest rates. It is important to look not just at a single interest rate, but at the whole spectrum of interest rates to judge economic conditions. For example, one important indicator is the spread between the rate that banks pay depositors and that they pay on loans. This spread is currently high. It indicates to me that banks are viewing lending as a particularly risky activity; that they are unwilling to undertake this risk without a substantial risk premium; and therefore that credit is tighter than one would judge by looking only at rates on government securities.

Q.3. We regularly hear about the inadequacies of our economic data and proposals to upgrade them, but funding for data collection seems to get cut in the appropriation process. Do you think our economic data needs improvement and do we need to spend more money to achieve that?

A.3. The Council of Economic Advisers is actively involved in an interagency working group to address the serious problem of improving government statistics. I strongly support these efforts. The U.S. has always been at the forefront of developing and implementing economic statistics. Good statistics are necessary both to assist private firms in making their decisions and for government to formulate policies, and to assess their success. Our leadership in this area may now be threatened by the contraction in the amount of resources we are devoting to economic statistics. We are looking into this.

Q.4. Some years ago, you two co-authored a paper dealing with credit constraints that in some respects anticipated the credit crunch we have experienced recently. In your view, are there signs that banks are ready to expand their loan volumes soon?

A.4. During the past year, as I noted in my answer to question 2, there has been a large spread between the rates of interest at which banks borrow and the rates at which they lend. This has contributed to a high level of profitability for banks, which should facilitate banks ability and willingness to expand their loan volumes soon, should they be convinced that the general prospects of the economy are favorable. The regulatory reforms introduced by the administration earlier this year should also facilitate enhanced lending. I do remain concerned, however, by the fact that the spread between borrowing and lending rate continues to be high, and real lending rates remain relatively high, indicative of tight credit.

Q.5. The United States gives foreign banks and securities firms the same competitive opportunities in our financial markets as domestic firms enjoy. At his own confirmation hearing Secretary of the Treasury Bentsen voiced concerns about certain foreign countries that take advantage of our open financial markets, yet do not give us a fair opportunity to compete in theirs. He stated: "... the touchstone of our trade policy, including international negotiations on financial services, is that we must demand reciprocity."

(a) Do you agree with Senator Bentsen on this point?

(b) Do you think our negotiating position on behalf of U.S. firms would be improved if we enacted the Fair Trade in Financial Services Act, a bill passed by the Senate several times, under which U.S. authorities could deny applications from firms whose home countries discriminate against U.S. firms?

A.5. I agree with Senator Bentsen on his appraisal of the importance of reciprocity in access to the financial markets of other developed countries. We need to look at not only *de jure* national treatment, but also *de facto* reciprocity. The Fair Trade in Financial Services Act may improve our negotiating position, but stronger actions may be necessary. The United States gains from the free flow of capital to it from all countries in the world, and extreme care must be taken not to impede the ability of the United States to preserve this international role. Issues of opening financial markets may be addressed more effectively within a broader context involving other goods and services and/or within a framework involving other trading partners who, too, may be adversely affected by lack of market access.

Q.6. An anonymous official in the previous Administration is reported to have said, "potato chips, computer chips, what's the difference?" While no one will admit to having made that remark, the previous Administration seems to have followed its logic with regard to our industrial base and strategic industries. How do you respond to that remark and what do you believe is the proper role of the Federal Government toward strategic industries?

A.6. It is imperative that we maintain our position of technological leadership. The Administration and the Council of Economic Advisers are strongly committed as government policies that foster an environment where firms will both develop and implement new technologies. We should undertake policies that foster innovation. These include keeping the deficit low to encourage investment in productive capital, undertaking government investments in education and in infrastructure that promote innovation, making sure that government regulation encourages rather than discourages the private sector to develop and implement new ideas, and supporting basic research and development.

The question whether government should provide support to particular sectors is more problematic: Government support to agriculture over the past century has been largely responsible for the remarkable growth in productivity in that sector. Some sectors are more technically progressive than others. In many such sectors, a strong and effective patent system may suffice to provide adequate incentives. In others, technological spillovers are likely to be important. Though there are instances of effective government selection of appropriate industries and/or projects to support, the question of overall ability of government to "pick winners" and how best to design government programs to manage the likelihood of success requires further study.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM ALAN S. BLINDER

Q.1. How confident are you that economic growth will accelerate later this year? Should Congress or the Federal Reserve be doing more to ensure such a pick up?

A.1. Forecasts are always subject to uncertainty and to revisions because of unforeseen events; so forecasters should always be modest. The Administration's forecast does show that economic growth will recover substantially during the last half of 1993 and in 1994 relative to its weak performance in the first part of this year—largely because of the lagged effects of lower interest rates. The consensus of private forecasters has similar outlooks for real growth, inflation, and unemployment.

Interest rates at both the short and long end of the maturity spectrum are quite low now because of both the policy stance of the Fed and financial markets' favorable reaction to the President's economic plan. Fiscal and monetary policy interact. The Fed is able to maintain low interest rates because the Administration and Congress are working together to address the deficit.

The most important action the Congress could take now is to pass the President's budget with its record deficit reduction. If the President's plan is enacted, we forecast continued and sustainable economic growth.

Q.2. Professor Blinder, you have studied how the Japanese economy works. Are they doing things we should be learning from?

A.2. There are a number of areas where we could learn from the Japanese experience. For example, Japan's greater orientation toward saving and investment has certainly contributed to rapid Japanese advances in many industrial sectors. With respect to private business practices, Japanese firms have developed cooperative forms of labor-management relations and long-term relations among business firms which are now being emulated by many U.S. firms. So, yes, there are a number of areas where we could benefit from observing Japan.

At the same time, there are aspects of the Japanese economy that are less commendable, so slavishly imitating the "Japanese model" would be neither wise nor appropriate for the U.S. We should assess Japan with a clear eye to grasp both the positive and negative aspects of the Japanese system.

Q.3. The money supply has not been a very effective guide to the Fed recently in its policy deliberations. What should the Fed be tying its policy decisions to, and how should we judge the Fed's performance?

A.3. I could not agree more that the money supply is not a good guide in policy deliberations. The money aggregates are very unstable because of innovation in financial markets and the ease with which households and firms can move from one type of financial instrument to another. One consequence of this is that the three main "Ms" often emit conflicting signals. Short-term interest rates provide a much better indicator of the current policy stance of the Fed.

Q.4. We regularly hear about the inadequacies of our economic data and proposals to upgrade them, but funding for data collection seems to get cut in the appropriation process. Do you think our economic data needs improvement and do we need to spend more money to achieve that?

A.4. I agree wholeheartedly that we must engage in a serious effort to improve the quality of our economic statistics. The main agencies that collect data and produce the statistics—the Bureau of the Census, the Bureau of Economic Analysis, and the Bureau of Labor Statistics—have been faced with an economy that is growing in both size and complexity at the same time as their budgets have failed to keep pace. The Council of Economic Advisers is participating in an interagency Economics Information Infrastructure Initiative (EI3). It has already done work toward quantifying the shortcomings of our system of economic statistics, identifying the benefits from improving our statistics, and recommending specific initiatives to carry out the goal of this improvement. If confirmed, I would assist the Chairman in working for the implementation of this initiative.

Q.5. Some years ago, you two co-authored a paper dealing with credit constraints that in some respects anticipated the credit crunch we have experienced recently. In your view, are there signs that banks are ready to expand their loan volumes soon?

A.5. There is evidence that banks are easing credit somewhat, but credit is still somewhat tight. Banks are much more liquid now, but they are still paying a great deal of attention to the adequacy of their capital. Because of both their perception of greater uncertainty about the course of the economy and because of increased regulatory scrutiny, banks are using more stringent rules in deciding who gets loans. While it is a good sign for long-run economic stability that banks are more cautious than they were in the 1980's, there is probably still some room for lending practices to shift. The most important factors, however, for bank lending are the level of the interest rate and the prospects for stable economic growth. The Administration's policies are contributing to both low interest rates and steady growth, so I expect loan supply and demand to expand steadily, though without the excesses of the earlier decade.

Q.6. The United States gives foreign banks and securities firms the same competitive opportunities in our financial markets as domestic firms enjoy. At his own confirmation hearing Secretary of the Treasury Bentsen voiced concerns about certain foreign countries that take advantage of our open financial markets, yet do not give us a fair opportunity to compete in theirs. He stated: "... the touchstone of our trade policy, including international negotiations on financial services, is that we must demand reciprocity."

(a) Do you agree with Senator Bentsen on this point?

(b) Do you think our negotiating position on behalf of U.S. firms would be improved if we enacted the Fair Trade in Financial Services Act, a bill passed by the Senate several times, under which U.S. authorities *could* deny applications from firms whose home countries discriminate against U.S. firms?

A.6. We should always strive to craft policies that confer maximum benefits on the U.S. economy. Historically the U.S. has adhered to the principle of national treatment, not reciprocal treatment, in the area of financial services. I am very concerned, however, about the lack of access by American financial firms to foreign markets, particularly in those countries whose financial firms operate freely in our markets, and believe that we should reevaluate our traditional position. Our new "Framework" agreement will, in fact, engage the Japanese in talks designed to move toward greater reciprocity in financial services.

Proposals such as the Fair Trade in Financial Services Act, which would in effect move the U.S. from a *de jure* to a *de facto* national treatment standard, are consistent with this approach and deserve serious consideration by the Administration.

Q.7. On July 2 Senators D'Amato, Sasser and I wrote to President Clinton expressing our concerns about the status of the draft GATT text governing financial services. Our concern was that under that text, which operates under the MFN principle, the United States could "lock" its markets open while losing the authority to pursue bilateral negotiations with countries that discriminate against our financial services industries.

(a) Are you familiar with this issue?

(b) If not, will you familiarize yourself with it and ensure we have a firm policy to prevent free-riders?

A.7. I must admit that I am not as familiar as I should be with all of the details of the GATT issue that you have raised, because this issue is handled by the Treasury. However, I share your concern about the problems of American financial services firms which may face closed markets abroad. As I noted in answer 6, it is time that we carefully reevaluate our traditional principles in this area. U.S. firms should not be victimized by one-sided commitments.

Q.8. The Wall Street Journal on July 12, 1993 published a long article on our negotiations with Japan to reach a framework agreement to establish a process for resolving our trade problems with that country. The article notes that the Japanese would not set numerical goals for reducing its huge trade surplus or for increasing its overall exports. It did state, however that: "Washington did win a Japanese commitment to use sets of objective criteria either qualitative or quantitative or both to evaluate progress."

(a) Can you explain to us how we will ensure we do not just engage the Japanese again in fruitless talks that produce no bottom line results in our trade posture with that country?

(b) What will we do if we do not get progress in eliminating our trade deficit with Japan?

A.8. I participated as an observer and adviser in the U.S.-Japan Framework talks, so I know from first-hand experience how arduous these negotiations were. But the results were worth the effort the U.S. has secured from Japan a commitment to strong domestic demand-led growth that will lead to a highly "significant" increase in its imports and a "highly significant" decrease in its current account surplus. These changes in Japan will lead to more jobs in the U.S. and in the world.

Moreover, the U.S. has gained from Japan its commitment to reduce sectoral and structural impediments to trade. Progress in eliminating these barriers will be assessed through the use of objective criteria. One of the difficulties of previous negotiations was that there were no objective criteria for assessing results. We had no mechanism for distinguishing areas where progress was satisfactory from areas where progress was inadequate. We have now reached an explicit understanding with Japan that agreements will be monitored and agreements must produce tangible results. This was a big step forward. If subsequent negotiations do not resolve our market access problems, we have retained the full range of trade measures applicable under U.S. law.

Q.9. Dennis Encarnation, a professor at the Harvard Business School, has written a new book about the U.S./Japan Economic relationship entitled *Rivals Beyond Trade*. In this book he argues a major reason for Japan's persistent trade surplus with our country is related to the gross imbalance in direct investment. Japan, he argues, followed policies of restricting U.S. investment there [sic] while its firms expanded their investment here. Japanese direct investment in the United States is almost four times as great as U.S. investment in Japan—\$87 billion versus just \$23 billion. As a result two-thirds of all American imports from Japan are shipped "intra-company," i.e. from Nissan to its American subsidiaries, while the U.S. does not benefit from such "intra-company" trade into Japan.

(a) Do you think this point made by Mr. Encarnation about the relationship of investment and trade has merit? If so, what sort of policies should we adopt to get at this problem?

(b) If Mr. Encarnation is correct won't dollar devaluation make it harder for American firms to invest in Japan?

A.9. There is considerable evidence that trade and investment are complements: to export, firms need a presence in the foreign market to provide marketing and after-sales service for their products. This is particularly true in the sophisticated capital goods industries where the U.S. excels. We have consequently made increasing U.S. foreign direct investment in Japan a priority in the Framework talks.

However, the *level* of the exchange rate should not affect investment decisions. While the exchange rate affects the cost of entering a foreign market, it also raises or lowers the dollar-denominated return on that investment by an equal amount. So exchange rates should not have any net effect on the rate of return on foreign investment. The expectation of future exchange rate changes will affect the incentives to engage in foreign direct investment, however. Expectations of future depreciation will increase the incentive to invest abroad because it will increase the rate of return on the foreign investment measured in domestic currency terms.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Levitt (LAST) Arthur (FIRST) Jr. (OTHER)

Position to which nominated: Chairman, Securities and Exchange Comm. Date of nomination: _____

Date of birth: 3 (DAY) 2 (MONTH) 21 (YEAR) Place of birth: Brooklyn, New York, U.S.A.

Marital status: M Full name of spouse: Marilyn Blauner Levitt

Name and ages of children: Arthur Levitt III 36 yrs
Lauri Levitt Friedland 34 yrs

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	<u>Polytechnic Prep</u>	<u>9/46-6/49</u>	<u>High School Diploma</u>	<u>6/49</u>
	<u>Country Day School</u>			
	<u>Williams College</u>	<u>9/49-6/52</u>	<u>B.A.</u>	<u>6/52</u>

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Williams College - LL.D. (Hon.)
Pace University - LL.D. (Hon.)
Hamilton College - LL.D. (Hon.)
Long Island University - LL.D. (Hon.)
Hofstra University - LL.D. (Hon.)
Williams College - Phi Beta Kappa
Medal of Excellence - Board of Regents/State of New York

Memberships:

List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

See attached list.

Organization	Office held (if any)	Dates

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

U. S. Air Force - Officer - 8/52 - 8/54

Time, Inc., Asst. Promotion Director - New York City - 1954-1959

Oppenheimer Industries, Exec. V.P. & Director, New York City - 1959-1962

Predecessor Firm, Shearson Hayden Stone, Partner, N.Y. City - 1962-1969

Shearson Hayden Stone, Inc., President, N.Y. City - 1969-1978

American Stock Exchange, Chairman, N.Y. City - 1978-1989

Levitt Media Company, Chairman, N.Y. City - 1989 to present

Page 2 - Memberships

<u>Organization</u>	<u>Office held (if any)</u>	<u>Dates</u>
Rockefeller Foundation	Trustee & Chairman, Finance Committee	4/87 - present
Norman & Rosita Winston	President (1/91 - present)	5/80 - present
Revson Foundation	Director	2/90 - present
Solomon R. Guggenheim Foundation	Trustee	3/89 - present
Williams College	Trustee, Chairman - Audit Committee	7/82 - present
The John F. Kennedy School of Government, Harvard - Visiting Committee		12/90 - present
Bond Club of New York		1964 - present
Economic Club of New York		1980 - present
Phi Beta Kappa Foundation		1989 - present
The Century Association		1979 - present
Williams Club		1959 - present
River Club		1988 - present
Century Country Club		1975 - present
American Business Conference		1981 - present

Government
experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

See attached list.

Published
writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

See attached list.

Political
affiliations
and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Managing Trustee, Democratic National Committee

Co-Chairman, Bill Clinton, Al Gore fund-raising dinner 4/24/92 NYC

Member, Business Leaders for Clinton/Gore

Vice Chairman, NY '92 Host Committee, Democratic Convention

GOVERNMENT EXPERIENCE:

Page 3

Conference Chairman - White House Small Business Commission

President's Task Force on Private Sector Initiatives

President's Private Sector Survey on Cost Control

Chairman - Special Advisory Task Force on Future Development of
West Side of Manhattan

Co-Chairman - International Commission on Central American
Recovery & Development

Defense Department - Task Force on National Industrial Base

Delegate-at-Large - New York State Constitutional Convention

Present Chairman - City of New York Economic Development
Corporation

Member - Mayor of New York City's Management Advisory Task Force

Chairman - Mayor's Management Advisory Task Force Committee on
Incentives and Tax Policy

Member - Defense Base Closure and Realignment Commission - 1991

BIBLIOGRAPHY

The following are publications by Arthur Levitt, Jr.:

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2. "We Can't Wait Another Year for Congress to Act on Capital Crisis," Inc., v.2 n.8, pp. 16, 18, August, 1980
3. "The Probable Impacts of Expanded Securities and Other Financing Activities of Banks and Securities Firms in the 1980s: Impacts on the Exchanges," published in Securities Activities of Commercial Banks, Sametz, Arnold W., ed., pp. 155-56, Heath, Lexington Books, 1981
4. How to Make Your Money Make Money: The Experts Explain Your Alternatives, The Risks, The Rewards, Dow Jones-Irwin, 1981
5. "Self-Regulation at the Amex: Protecting the Endangered Entrepreneur," Directors and Boards, v.6 n.1, pp. 31-32, Summer 1981
6. "In Praise of Small Business," New York Times Magazine, v.131, p. 136, December 6, 1981
7. "In Praise of Small Business," Shultis, Robert L., co-author, Management Accounting, v.63, pp. 6, 71, February 1982
8. "Why Growth Is Important," published in Growth Industries in the 1980s: Conference Proceedings, Federal Reserve Bank of Atlanta, ed., pp. 15-21, Greenwood Press, Quorum, 1983
9. "The Successful Entrepreneur: A Personality Profile," Abertine, Jack, co-author, The Wall Street Journal, pp. 10, 12, August 29, 1983
10. "Industrial Policy: Slogan or Solution?," Harvard Business Review, v.62 n.2, pp. 6-8, March/April 1984

11. "An Operational Profile: How Entrepreneurial Winners In Mid-sized High-Growth Companies Satisfy Their Appetites for Daring," Management Review, v.73, p. 22, December 1984
12. "Don't Make Emerging Firms the Victims of Deficit Reduction," World, PMM & Co., v.19 n.1, pp. 4-6, 1985
13. Taxation of Insurance Business, Macleod, James S., co-author, Butterworth, 1985
14. Introduction to: The Winning Performance: How America's High-Growth Midsize Companies Succeed, Clifford, Donald K., Jr., Cavanaugh, Richard E., Albertine, Jack, Bantam, November, 1985
15. "Gauging Growth Isn't as Easy as ABC," Abertine, John M. co-author, Inc., p. 12, June 1985
16. "Preserving the Public's Trust," Financial World, v.154, p. 96, Dec 11, 1985
17. "Small Businesses Have Golden Opportunity to Think and Act Big," Los Angeles Times, v.105, p. 3, August 17, 1986
18. "Can American Business Compete? A Perspective from Midrange Growth Companies," published in Global Competitiveness: Getting the U.S. Back on Track, Stewart, Gordon C. co-author, Starr, Martin K., ed., pp. 271-98, Penguin Books, 1988
19. "Picking Up the Pieces After the Market Crash: Wall Street Must Make Changes to Win Back Burned Investors," Newsday, p. 1, April 10, 1988
20. "American Business Needs More Risk Takers," The New York Times, v.137, pp. 28, A24, June 28 1988
21. "We Need to Take Another Look at the Stock Market," The Washington Post, v.111, p. A23, July 12, 1988

22. "We Need to Take Another Long Look at the Stock Market," The Washington Post National Weekly Edition, p. 29, July 18-24, 1988
23. "Top-Line Thinking at the NEA," The Wall Street Journal, p. A14, June 28, 1990
24. "State Control Board Would Be No Solution For the City's Budget Woes," Lewis, Reginald F., co-author, New York Post, June 28, 1991
25. "More Jobs, Jobs, Jobs," Altman, Roger C., co-author, The New York Times, v.141, pp. 17, 35, July 18, 1992
26. Public Money and the Muse - Introduction - Norton, 1991
27. Charting the Course for Business Growth Through the 1990's Chapter, "Consensus Versus Confrontation", University Press of America, 1990

Political

contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

See attached list.

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

See attached sheet.

Future employment
relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

PG. 4 POLITICAL CONTRIBUTIONS

DATE	PAYABLE TO	AMOUNT
4/7/86	COMMITTEE FOR TIM WORTH	\$1,000
5/19/86	FRIENDS OF RICHARD ROBINSON	\$1,000
8/26/86	TED WEISS FOR CONGRESS	\$500
9/4/86	NEW YORK STATE DEMOCRATIC COMMITTEE	\$3,000
9/18/86	CRANSTON FOR SENATE	\$1,000
9/18/86	COMMITTEE TO ELECT TERRY SANFORD	\$1,000
10/3/86	CITIZENS FOR ABRAMS	\$2,000
10/21/86	FRIENDS OF RUTH MESSINGER	\$200
10/21/86	BELLA ABZUG FOR CONGRESS	\$1,000
10/21/86	MARK GREEN FOR U.S. SENATE	\$500
1/16/87	DAVID N. DINKINS COMMITTEE	\$500
1/26/87	DAVID N. DINKINS COMMITTEE	\$1,500
4/15/87	WEICKER '88 COMMITTEE	\$1,000
5/20/87	JOHN D. DINGELL FOR CONGRESS	\$1,000
5/20/87	MITCHELL FOR SENATE COMMITTEE	\$1,000
6/19/87	DEMOCRATIC LEADERSHIP COUNCIL	\$5,000
6/19/87	DAVID N. DINKINS COMMITTEE	\$250
8/3/87	DOLE FOR PRESIDENT	\$1,000
9/4/87	DUKAKIS FOR PRESIDENT COMMITTEE	\$1,000
1/11/88	MOYNIHAN COMMITTEE	\$1,000
2/15/88	FRIENDS OF RUTH MESSINGER	\$1,000
3/7/88	SAM NUNN FOR U.S. SENATE	\$500
3/7/88	GEHARDT FOR PRESIDENT	\$500
3/22/88	CHUCK ROBB FOR SENATE	\$1,000
3/10/88	AL GORE FOR PRESIDENT	\$2,000
3/28/88	THE SIMPSON SENATE COMMITTEE	\$2,000
4/11/88	LOYD BENSTEN CAMPAIGN	\$1,000
6/1/88	DEMOCRATIC SENATORIAL CAMPAIGN	\$5,000
6/1/88	JOHN D. DINGELL FOR CONGRESS	\$1,000
6/1/88	RANGEL FOR CONGRESS	\$500
8/8/88	DAVID N. DINKINS COMMITTEE	\$250
1/1/89	COMMITTEE FOR DAVID DINKINS	\$1,000
2/1/89	NEW YORKERS FOR LUNDINE	\$500
2/17/89	TRIBUTE TO RAY JONES	\$1,000
2/17/89	WYCHE FOWLER, JR.	\$2,000
4/18/89	BILL BRADLEY FOR U.S. SENATE	\$1,000
5/29/89	RANGEL FOR CONGRESS	\$500
6/26/89	FRIENDS OF RUTH MESSINGER	\$500
9/6/89	PEOPLE FOR PETE DOMENICI	\$500
9/25/89	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$1,000
11/9/89	ROBERT MOSBACHER FOR LT. GOVERNOR	\$1,000
11/28/89	FRIENDS OF HOWELL HEFLIN	\$1,000
12/15/89	COMMITTEE FOR DAVID DINKINS	\$5,000
1/23/90	JOHN DINGELL FOR CONGRESS	\$1,000
3/9/90	PAUL BARDACKE FOR GOVERNOR COMMITTEE	\$500

NOTE: Political Contributions for the last half of 1985 cannot be located

PG. 4 POLITICAL CONTRIBUTIONS

DATE	PAYABLE TO	AMOUNT
3/21/90	YATES FOR CONGRESS COMMITTEE	\$500
4/9/90	THE MOYNIHAN COMMITTEE	\$1,000
3/27/90	BILL BRADLEY FOR US SENATE	\$1,000
3/9/90	SAM NUNN CAMPAIGN COMMITTEE	\$1,000
4/16/90	SENATOR WYCHE FOWLER, JR.	\$500
4/12/90	FRIENDS OF SENATOR ROCKEFELLER	\$1,000
4/11/90	SCHUEER FOR CONGRESS	\$500
5/1/90	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$10,000
4/2/90	COMM. TO RE-ELECT REP. CHARLES RANGEL	\$1,000
6/15/90	COMMITTEE FOR DAVID DINKINS	\$500
7/12/90	SAKI FOR SENATE	\$1,000
8/22/90	ROBERT MOSBACHER FOR LT. GOVERNOR	\$500
10/2/90	PAT WILLIAMS CAMPAIGN COMMITTEE	\$1,000
10/2/90	ELEANOR H. NORTON	\$500
12/5/90	JOHN DINGELL FOR CONGRESS	\$1,000
5/21/91	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$7,500
9/17/91	THE MOYNIHAN COMMITTEE	\$1,000
11/5/91	JOHN DINGELL FOR CONGRESS	\$1,000
11/14/91	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$1,000
11/14/91	NEW YORKERS FOR NED REGAN	\$500
2/29/92	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$200
3/9/92	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$2,500
3/11/92	TED WEISS CAMPAIGN COMMITTEE	\$300
3/26/92	COMMITTEE FOR DAVID DINKINS	\$1,000
4/13/92	SANFORD FOR SENATE	\$1,000
3/9/92	FRIENDS OF JANE HARMAN	\$500
4/1/92	BRIAN MURTAGH FOR ASSEMBLY	\$2,500
3/30/92	TSONGAS FOR PRESIDENT	\$1,000
6/3/92	DEMOCRATIC CONGRESSIONAL COMMITTEE	\$200
6/4/92	HOUSE LEADERSHIP FUND	\$500
7/1/92	COMMITTEE FOR DAVID DINKINS	\$1,000
9/19/92	VIC FAZIO FOR CONGRESS	\$1,000
10/21/92	COMMITTEE FOR DAVID DINKINS	\$2,000
10/12/92	ARKANSAS DEMOCRATIC PARTY NONFED. ACCOUNT	\$40,000
10/8/92	ABRAMS 92	\$200
10/19/92	ARKANSAS DEMOCRATIC PARTY FEDERAL ACCOUNT	\$5,000
10/19/92	ARKANSAS DEMOCRATIC PARTY FEDERAL ACCOUNT (SPOUSE)	\$5,000
10/29/92	GOVERNOR LOWELL P. WEICKER JR.	\$500
11/23/92	COMMITTEE FOR DAVID DINKINS	\$5,000
12/8/92	FRIENDS OF RUTH MESSINGER	\$1,000
3/5/93	COMMITTEE TO RE-ELECT SEN. EDWARD M. KENNEDY	\$2,000
4/7/93	THE MOYNIHAN COMMITTEE	\$1,000
4/7/93	LIEBERMAN '94	\$500
4/27/93	DEMOCRATIC SENATORIAL CAMPAIGN COMMITTEE	\$1,000

Qualifications: (Page 4)

My 35-year career in publishing, agriculture, and finance has given me the broadest perspective of American markets, investor interests, and regulatory requirements. As an entrepreneur, I built a small investment banking firm into one of the most successful in American financial history. I worked as a broker managing retail accounts, then as a manager of a firm that was one of the earliest to be publicly owned. In 1978 I became head of the American Stock Exchange where I helped manage programs and policies intended to monitor trading practices and protect investor interests. As a participant in numerous international meetings of Stock Exchange heads, I acquired a broad familiarity with worldwide markets and trading practices. Serving on numerous Presidential task forces and commissions, I gained an understanding of the appropriate relationship between the legislative and executive branches.

In summary, I have worked within and also regulated markets for nearly 30 years and am deeply committed to the notion of protecting and enhancing the interests of American investors and entrepreneurs.

Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

See attached.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

See attached.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None. As noted elsewhere in this questionnaire, I served as Chairman of the American Stock Exchange for eleven years and frequently represented the Exchange before Congress and the U.S. Government. The ethics arrangements which I will undertake to resolve the appearance of a conflict of interest presented by my prior affiliation with the American Stock Exchange are described in responses to Questions 1 and 2 above, and in my ethics agreement with the Securities and Exchange Commission, as approved by the Office of Government Ethics. Copies of which I understand will be furnished to the Committee.

Answer to Question 1, Page 5

I retired as Chairman and Chief Executive Officer of the American Stock Exchange in 1990. (I continued to receive compensation for consulting services for calendar years 1990 and 1991.) I have vested pension benefits from the American Stock Exchange under its qualified plan, which are fully funded and independently maintained and managed. To avoid any appearance of a conflict of interest, if confirmed, I will purchase "back-up" supplemental insurance coverage that would ensure the continuation of my pension benefits in the exceedingly remote event that the qualified plan becomes underfunded and the American Stock Exchange becomes financially unable to make additional contributions to the qualified plan. In addition, I have retirement benefits under two Supplemental Executive Retirement Plan, which, if I am confirmed, will be converted into lump sum payments (using actuarial and present value discounted methodology) such that I will receive no ongoing payments from the current earnings of the American Stock Exchange. As it has for other retired executives of the American Stock Exchange, the Exchange has continued to provide medical insurance and term life insurance to me through its group policies. If I am confirmed, I intend to voluntarily relinquish the medical insurance coverage provided to me by the Exchange and to purchase medical insurance at my expense through one of the plans available to government employees. With respect to the group term life insurance plan, if confirmed, I will convert the group term life insurance into universal life insurance and voluntarily pay the insurance

premium myself. This universal life insurance will be in no way dependent on the fortunes of the American Stock Exchange.

I also expect to receive deferred compensation for past services rendered as a director of the East New York Savings Bank through a deferred compensation plan.

Answer to Question 2, page 5:

I intend, to the maximum extent practicable, consistent with my financial and retirement objectives, to eliminate all potential conflicts of interest. In accordance with that, I will divest myself of the following assets which I hold or which are attributed to me:

BDM Holdings, Inc. Common
 Levitt Communications, Inc.
Roll Call Associates
 American Express Co. Common
 B&B Enterprises, Inc. Common
 Eastman Kodak Common
 Gannett Inc. Common
 Hewlett Packard Common
 Shared Medical Systems, Inc. Common
 Shared Medical System Director's Options
 General Electric Corp. Common
 American Medical Holdings, Inc. Common
 Stryker Corp. Common
 AT&T Common
 Abbott Labs Common
 Walt Disney Co. Common
 Amax Inc. Common
 Exxon Corp. Common
 Johnson & Johnson Common
 Society Corp. Common
 Royal Dutch Petroleum Co. Common
 Philip Morris Co. Common
 Software PUBG Corp. Common
 Pacificorp Common
 PSI Resources Inc. Common
 AMP Incorporated Common
 AXP European call/put options
 General Motors Acceptance Corp.
 Federal Natl. Mtg. Assoc.
 General Electric Capital Corp. Note
 Assoc. Corp. of North America Note
 Federal Home Loan Bank Note
 Standard Oil of Ohio Note
 Federal Natl. Mtg. Assoc. Note
 Waste Mgmt. Inc. LYON Note
 Readers Digest Assn CL A Common
 Masco Corp. Common
 New America High Income Fund
 IBM Common
 RETIX Common

Johnson & Johnson Common
 Merck & Co. Common
 Walt Disney Co. Common
 Enterprise Oil PLC AD Preferred
 Enterprise Oil PLC ADR Preferred
 Enterprise Oil PLC PF Preferred
 Euro Disneyland SCA Common
 Con Edison Common
 Pfizer Inc. Common
 Brenner Securities - Demand Note

I will retain the following securities. I understand they are unlikely to pose conflicts of interest because they are not issued by registered broker dealers or investment advisers regulated by the Securities and Exchange Commission. Although in the event that any such holding presents a conflict of interest, I will be recused and will consider divestiture.

Bristol Meyers Squibb Common
 First Empire State Corp. Common
 American Home Products Co. Common
 Southwestern Energy Common
 U.S. Treasury Notes
 Assignment of interest in Carlyle Partners Leveraged
 Capital Fund I, L.P. with respect to GDES
 Holdings, Inc.
 Bulgarian Currency

In addition, I will retain the investments I now have in mutual funds, and I may purchase additional mutual funds which are consistent with Commission requirements, with the proceeds of the divestitures referred to above. I will recuse myself from matters directly and predictably affecting the mutual funds in which I have a financial interest. I will also retain my investments in the privately held entities listed on pages 27 through 29 of my Form SF-278 and my investments in state and local government securities listed on pages 9 through 16 of my Form SF-278.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

See attached list.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

See attached.

Civil, criminal and
investigatory
actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

I was named as a defendant in a case relating to a car accident
in 1989. The case is pending in the Supreme Court, New York
County -- index number 21902/90.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

Question 4, page 6

During my years of service as Chairman of the American Stock Exchange I spoke with various members of Congress concerning legislation that might impact the U.S. securities industry. In addition, during the last 10 years I appeared before the following congressional committees:

The Subcommittee on Urban and Rural Economic Development of the Senate Committee on Small Business, July 13, 1983, regarding small business capital formation

The Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban Affairs, June 12, 1985, regarding shareholder voting rights

The Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce, June 17, 1985, regarding listing standards, options trading, equities market structure and unlisted trading privileges

The Subcommittee on Telecommunications, Consumer Protection and Finance of the House Energy and Commerce Committee, May 22, 1985, regarding listing standards

The Senate Committee on Foreign Relations, May 8, 1989, regarding the report of the International Commission for Central American Recovery and Development

The Subcommittee on Interior and Related Agencies of the House Committee on Appropriations, May 15, 1990, regarding the National Endowment for the Arts

The Senate Committee on Armed Services, July 23, 1991, regarding the recommendations of the Defense Base Closure and Realignment Commission

The Senate Committee on Armed Services, April 9, 1991, regarding the Defense Base Closure and Realignment Commission

The Subcommittee on Military Installations and Facilities of the House Committee on Armed Services, July 23, 1991, regarding recommendations of the Defense Base Closure and Realignment Commission

The Subcommittee on Government Activities and Transportation of the House Committee on Government Operations, October 28, 1991, regarding the National Endowment for the Humanities

The Senate Committee on Armed Services, February 16, 1993, regarding the Defense Base Closure and Realignment Commission

QUESTION 5, p.6

My General Recusal Policy

I have been furnished with a copy of 18 U.S.C. 208, as amended by the Ethics Reform Act of 1989, and the Canons of Ethics for Members of the Securities and Exchange Commission, 17 C.F.R. 200.50 et seq., both of which I have read. I understand that, as required by 18 U.S.C. 208, I must disqualify myself from any particular matter that, to my knowledge, would have a direct and predictable effect on my financial interests or a financial interest imputed to me,^{1/} unless a written waiver of such disqualification is issued pursuant to 18 U.S.C. 208(b).

Accordingly, I intend to disqualify myself from participation in any particular matter involving specific parties that has a direct and predictable effect on my financial interests or a financial interest imputed to me. In addition, consistent with Subpart E of the OGE Standards, I intend to disqualify myself for a period of one year from participation in any particular matter involving specific parties involving an entity with which, during the past year, I served as officer, director, trustee, or consultant.^{2/}

I intend to participate in matters of general applicability, such as general policy considerations, rulemaking proceedings or legislation, except that, as required by 18 U.S.C. 208, I will not participate when such a matter would, to my knowledge, have a direct and predictable effect on my financial interests, or financial interests imputed to me.

Finally, I intend to disqualify myself on a case-by-case basis, with respect to any other matter where, in order to avoid the possible appearance of impropriety, it appears desirable to me to disqualify myself, despite the lack of any actual conflict of interest or any requirement to do so.

My Recusal Policy Regarding BDM and EDGAR

BDM is the primary contractor operating the Commission's EDGAR project. As noted above, upon taking the oath of office, I intend to divest my holdings in BDM and to resign from my position as a Director of BDM Holding Inc. I note in this regard that, to the best of my recollection, I received no confidential

^{1/} I understand that the financial interests that would be imputed to me are those of a spouse, dependent child, general partner, or any organization in which I am serving as officer, director, or trustee, or any person with whom I am negotiating for employment.

^{2/} 5 C.F.R. 2635.502(b)(1)(iv) (1993).

information concerning EDGAR, nor did I vote on matters involving EDGAR while serving as a Director of BDM.

Nonetheless, out of an abundance of caution and to avoid even the appearance of impropriety, consistent with Subpart E of the OGE Standards, I intend to recuse from all matters that come before the Commission for consideration which involve EDGAR for a period of one year.^{3/} Similarly, I intend to recuse from the exercise of the administrative responsibilities of the Chairman of the Commission which may impact upon EDGAR for a period of one year. Specifically, I intend to delegate to another Commissioner the authority to make appointments and decisions concerning Senior Executive Service personnel which may impact upon EDGAR, and the authority to make or approve staff decisions relating to strategic planning concerning EDGAR. Further, although as Chairman I will retain broad budget authority, in exercising such authority, I intend to consult with the designated Commissioner when decisions concerning the overall budget could reasonably be expected to impact upon EDGAR.

My Recusal Policy Regarding AMEX.

I intend to disqualify myself from participation in any examination, inspection, rule filing, and any other particular matter involving specific parties in which the AMEX is a party, as well as any particular matter involving specific parties in which I participated while I was at the AMEX, or about which I gained confidential information while I was at the AMEX. However, I do intend to participate in examinations, inspections and rule filings whether or not AMEX is a party or has an interest when such matters could reasonably be expected to have a substantial impact on the other self-regulatory organizations or on the markets in general.

As noted above, I intend to participate in matters of general applicability, such as general policy considerations, rulemaking proceedings or legislation, except that, as required by 18 U.S.C. 208, I will not participate when such a matter would, to my knowledge, have a direct and predictable effect on my financial interests, or financial interests imputed to me.

Additionally, as noted above, I intend to disqualify myself on a case-by-case basis, with respect to any other matter where, in order to avoid the possible appearance of impropriety, it appears desirable to me to disqualify myself, despite the lack of any actual conflict of interest or any requirement to do so.

^{3/} Id.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: BLINDER ALAN STUART
(LAST) (FIRST) (OTHER)

Position to which nominated: MEMBER Date of nomination: June 18, 1993

Date of birth: 14 10 45 Place of birth: Brooklyn, New York
(DAY) (MONTH) (YEAR)

Marital status: Married Full name of spouse: Madeline Donna Blinder (m. Schwartz)

Name and ages of children: Scott Blinder, 20
William Blinder, 16

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	Massachusetts Institute of Technology	9/69-8/71	Ph.D.	8/71
	London School of Economics & Political Science	9/67 - 7/68	M.Sc.	7/68
	Princeton University	9/63 - 6/67	A.B.	6/67
	Syosset High School	9/59 - 6/63	H.S.	6/63

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Fellowships: Fulbright, London, 1967-1968
NDEA Graduate Fellowship, 1969-1971

Professional: Fellow, American Academy of Arts and Sciences, 1991-
Vice President, American Economic Association, 1989
Vice President, Eastern Economic Association, 1992-93
Richard T. Ely Lecturer, American Economic Association, 12/87
W.S. Woytinsky Lecturer, U. of Michigan, 12/81
Fellow of the Econometric Society, 1981-
Visiting Scholar, Russell Sage Foundation, 1991-92
Visiting Scholar, Economic Planning Agency, Tokyo, Summer 1991
Visiting Fellow, Brookings Institution, 1985-86
Fellow, Institute for Advanced Studies, Hebrew U. of Jerusalem, 1976-77

Memberships:

List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
(SEE ATTACHED C.V.)		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Professor of Economics, Princeton University, 9/1/71 to Present
 Self-employed as writer, public speaker, at home, 9/71 to 1/93
 Visiting Scholar, Russell Sage Foundation, 9/91 to 8/92
 Visiting Fellow, Brookings Institution, 9/85 to 6/86
 Visiting Fellow, National Bureau of Economic Research, 9/80 to 6/81
 Deputy Assistant Director, Congressional Budget Office, 5/75 to 9/75
 Economics Instructor, Boston State College, 1969
 Finance Instructor, Rider College, 1968 to 1969

Government
experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Deputy Assistant Director, Congressional Budget Office, 5/75 to 9/75

Also, see attached C.V. for a listing of Congressional committees
I testified before.

Published
writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

See attached C.V. plus list of newspaper and magazine articles.

Political
affiliations
and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

I have been an advisor to the Clinton and Dukakis campaigns.

Political

contributions:

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

NONE.

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

See attached C.V.

Future employment
relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I am on official leave from Princeton University. I will sever all ~~connections with other employers, associations, and organizations with which I have had past contacts.~~

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I expect to return to Princeton University.

3. Has anybody made you a commitment to a job after you leave government?

Yes; I have tenure at Princeton University.

4. Do you expect to serve the full term for which you have been appointed?

There is no stated term.

Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

NONE.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

Merrill Lynch Pacific Fund

Vanguard International Equity Index Fund

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

NONE.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

NONE.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I will divest myself of the assets listed in Item #2 on page 5.

Civil, criminal and
investigatory
actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

NONE.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

NONE.

CURRICULUM VITAE

Alan Stuart Blinder

November 1992

Address

Department of Economics
 Princeton University
 Princeton, NJ 08544
 (609) 258-4010
 FAX: (609) 258-6419

Personal Data

Born: October 14, 1945, Brooklyn, New York.
 Marital Status: married; two sons, ages 20 and 16

Educational Background

Ph.D., Massachusetts Institute of Technology, 1971
 M.Sc. (Econ.), London School of Economics, 1968
 A.B., Princeton University, summa cum laude in economics, 1967.

Professional Activities, Honors, etc.

Fellow, American Academy of Arts and Sciences, 1991-.
 Vice-President, American Economic Association, 1989.
 Executive Committee, 1985-87.
 Commission on Graduate Education, 1988-1990.
 Committee on Honors and Awards, 1988-.
 Vice President, Eastern Economic Association, 1992-93.
 Member, Academic Advisory Panel, Federal Reserve Bank of New York, 1990-.
 Member, Research Advisory Board, Committee for Economic Development.
 Member, Selection Committee, Frank E. Seidman Distinguished Award in Political Economy, 1991 and 1992.
 International Associate Member, Foundation for Advanced Information and Research, Japan, 1989-.
 Member, Board of Directors, Social Science Research Council, 1987-1990.
 Executive Committee, 1988-90.
 Member, Advisory Committee on Economics, Alfred P. Sloan Foundation, 1984-.
 Member, NSF Economics Panel, 1985-1986.
 Chairman, Economic Policy Committee, National Policy Exchange, 1981-1985.
 Member, Conference on Research in Income and Wealth (NBER), 1985-.
 Member, National Academy of Social Insurance, 1988-.
 Member of Advisory Board, Penman Asset Management.

Member, Board of Editors, Journal of Economic Literature, 1981-1984, 1988-.
 Member, Editorial Board, Journal of Monetary Economics, 1981-.
 Associate Editor, Journal of Public Economics, 1982-.
 Member, Editorial Board, Challenge, 1984-.
 Member, Board of Editors, The American Prospect, 1989-.

Joseph L. Lucia Lecturer, Villanova University, October 1992.
 Kane Lecturer, Bentley College, November 1991.
 Distinguished Speaker, Eastern Economic Association, March 1990.
 H. Chase Stone Lecturer, Colorado College, January 1990.
 Tennenbaum Lecturer, Georgia Institute of Technology, Nov. 1989.
 Henry George Lecturer, University of Scranton, October 1988.
 Richard T. Ely Lecturer, American Economic Association, Dec. 1987.
 David Kinley Lecturer, University of Illinois, October 1986.
 Kathleen Bryan Lecturer, University of North Carolina, Greensboro, March 1986.
 W. S. Woytinsky Lecturer, University of Michigan, December 1981.

Director, Center for Economic Policy Studies, Princeton University, 1989-.
 Bicentennial Preceptor, Princeton University, 1975-1978.
 Fellow of the Econometric Society, 1981- .
 Member, Brookings Panel on Economic Activity, 1981 and 1985;
 Senior Adviser, 1982-.
 Research Associate, National Bureau of Economic Research, 1978-.
 Member, American Economic Association.
 Member, International Society for Inventory Research.

Economics columnist, Business Week, 1985-.
 Economics columnist, The Boston Globe, 1981-1985.
 Occasional columnist, Washington Post, 1982-1990.
 Occasional columnist, Newsday, 1987-.
 Editorial advisor, Bristlecone Books, 1990-.

Deputy Assistant Director, Fiscal Analysis Division, Congressional Budget Office, Washington, D.C., 1975.
 Consultant, Congressional Budget Office, 1975-.

Teaching Experience

Gordon S. Rentschler Memorial Professor of Economics, Princeton University, 1982- .
 Chairman, Department of Economics, Princeton University, 1988-90.
 Professor of Economics, Princeton University, 1979-1982.
 Associate Professor of Economics, Princeton University, 1976-1979.

Assistant Professor of Economics, Princeton University, 1971-1976.
 Instructor in Economics, Boston State College, Boston, MA, 1969.
 Instructor in Finance, Rider College, Trenton, NJ, 1968-1969.

Visiting Appointments

Visiting Scholar, Russell Sage Foundation, 1991-1992.
 Visiting Scholar, Economic Planning Agency, Tokyo, Summer 1991.
 Visiting Fellow, The Brookings Institution, 1985-1986.
 Bryan Visiting Professor, University of North Carolina at Greensboro, March 1986.
 Visiting Professor, Institute for International Economic Studies, Stockholm, Summer 1983.
 Visiting Professor, Institute for Advanced Studies, Vienna, Summer 1982.
 Fellow, Institute for Advanced Studies, Hebrew University of Jerusalem, 1976-1977.
 Visiting Assistant Professor, Stanford University, 1974.

Areas of Special Interest

Stabilization policy, macroeconomics, income distribution, the Japanese economy.

Publications

Books

Growing Together: An Alternative Economic Strategy for the 1990s, Whittle, 1991.

Paying for Productivity, Brookings, 1990 (edited volume).

Macroeconomics Under Debate, Harvester-Wheatsheaf, 1989.

Inventory Theory and Consumer Behavior, Harvester-Wheatsheaf, 1989.

Economic Opinion, Harcourt Brace Jovanovich, First edition 1989; Second edition 1991.

Hard Heads, Soft Hearts: Tough-Minded Economics for a Just Society, Addison-Wesley, 1987; paperback edition: 1988; Japanese translation: 1988.

Economics: Principles and Policy, Harcourt Brace Jovanovich, First edition 1979; Second edition 1982; Third edition 1985; Fourth edition 1988; Fifth edition 1991 (with William J. Baumol); Canadian editions 1985 and 1988 (with William J. Baumol and William Scarth); Australian edition 1988 (with William Baumol, Alan Gunther and John Hicks); Japanese edition 1988.

Private Pensions and Public Pensions: Theory and Fact, The University of Michigan, 1983.

Economic Policy and the Great Stagflation, Academic Press, 1979, 229 pp. (paperback edition: 1981; Japanese edition: 1982).

Natural Resources, Uncertainty and General Equilibrium Systems: Essays in Memory of Rafael Luskv, Academic Press, 1977 (co-edited with Philip Friedman).

Toward an Economic Theory of Income Distribution, The MIT Press, 1974, 176 pp. (paperback edition: 1977).

Articles

Forthcoming

"Should the Former Socialist Economies Look East or West for a Model?", International Economic Association, Moscow Congress Proceedings, forthcoming.

"Free Trade," in D. Henderson (ed.), Fortune Encyclopedia of Economics, forthcoming.

"Keynesian Economics," in D. Henderson (ed.), Fortune Encyclopedia of Economics, forthcoming.

1992

"More Like Them?", American Prospect, Winter 1992.

"Growing Together," Princeton Alumni Weekly, March 4, 1992.

"International Perspective: Trading with Japan: Why the U.S. Loses--Even on a Level Playing Field," Business Economics, Vol. 27, No. 1, January 1992.

"International Differences in Labor Turnover: A Comparative Study with Emphasis on the U.S. and Japan," in M. E. Porter (ed.), Time Horizons of American Industry, forthcoming (with Alan Krueger).

"The Federal Funds Rate and the Channels of Monetary Transmission," (with Ben Bernanke), American Economic Review, Vol. 82, No. 4, September 1992, pp. 901-921.

"Consumer Durables: Evidence on the Optimality of Usually Doing Nothing," Journal of Money, Credit, and Banking, Vol. 24, No. 2 (May 1992), pp. 258-272 (with Avner Bar-Ilan).

1991

"The Resurgence of Inventory Research: What Have We Learned?," Journal of Economic Surveys, Vol. 5, No. 4 (1991) (with Louis J. Maccini).

"Report of the Commission on Graduate Education in Economics," Journal of Economic Literature, Vol. 29 (September 1991), pp. 1035-1053 (with other members of the Commission).

"Profit Maximization and International Competition," Forthcoming in Richard O'Brien (ed.), Finance and the International Economy: 5--The AMEX Bank Review Prize Essays, Oxford University Press, 1991.

"Is the National Debt Really--I Mean, Really--A Burden?" in Debt and the Twin Deficits Debate, edited by James Rock, Mayfield Publishing Company, 1991.

"Why Are Prices Sticky? Preliminary Results from an Interview Study," American Economic Review, May 1991, pp. 89-96.

"The Supply of and Demand for Macroeconomic Advice" (printed in Finnish as "Talouspoliittinen neuvonanto - kysyntä ja tarjonta"), Finnish Economic Journal, Vol. 87, January 1991, pp. 80-90.

"Taking Stock: A Critical Assessment of Recent Research on Inventories," Journal of Economic Perspectives, Winter 1991, pp. 73-96 (with Louis J. Maccini).

1990

"A Shred of Evidence on Theories of Wage Stickiness," Quarterly Journal of Economics, Vol. 55, Issue 4, November 1990 (with Don H. Choi), pp. 1003-1015.

"Learning By Asking Those Who Are Doing," Eastern Economic Journal, Vol. 16, No. 4, October/December 1990, pp. 297-306.

"Economic Policy and Economic Science: The Case of Macroeconomics," in Perspective 2000, edited by K. Newton, T. Schweitzer, and J.-P. Voyer, Economic Council of Canada, 1990.

"A Report on the Evidence: Pay, Participation, and Productivity," The Brookings Review, Winter 1989/90.

1989

"In Honor of Robert M. Solow: Nobel Laureate in 1987," Journal of Economic Perspectives, Vol. 3, No. 3, Summer 1989.

"The Monetary-Fiscal Transition in the United States," Institute of Fiscal and Monetary Policy, Financial Review (Tokyo), May 1989 (published in Japanese translation).

"The Stylized Facts About Credit Aggregates," in Macroeconomics Under Debate, Harvester-Wheatsheaf, 1989.

"The Comparative Statics of a Credit-Rationing Bank," in Macroeconomics Under Debate, Harvester-Wheatsheaf, 1989.

1988

"The Fall and Rise of Keynesian Economics," The Economic Record, December 1988. Reprinted in P. Maxwell (ed.), Macroeconomics: Contemporary Australian Readings, Harper & Row, 1991.

"The Challenge of High Unemployment," American Economic Review, Vol. 78, No. 2, May 1988.

"Credit, Money, and Aggregate Demand," American Economic Review Papers and Proceedings, Vol. 78, No. 2, May 1988 (with Ben S. Bernanke).

"The Life-Cycle Permanent-Income Model and Consumer Durables," Annales d'Economie et de Statistique, Jan.-Mar. 1988 (with Avner Bar-Ilan).

"Why Is the Government in the Pension Business?", in Susan Wachter (ed.), Providing for Retirement in the Twenty-First Century, D.C. Heath, 1988.

"The Rules-versus-Discretion Debate in the Light of Recent Experience," Weltwirtschaftliches Archiv, September 1987 (reprinted in H. Giersch (ed.), Macro and Micro Policies for More Growth and Employment, J. C. B. Mohr, 1988, pp. 45-63).

1987

"Credit Rationing and Effective Supply Failures," Economic Journal, June 1987, pp. 327-352.

"Keynes, Lucas, and Scientific Progress," American Economic Review, May 1987, pp. 130-136 (reprinted in John Maynard Keynes (1883-1946), Volume II, edited by Mark Blaug (Edgar Elger Publishing Co.), 1991, pp. 188-194).

"Credit Rationing and Aggregate Supply in Economies with Less-Developed Financial Systems," Conference on Economic Development and Social Welfare in Taiwan, Volume I, Institute of Economics, Academia Sinica, Taipei, Taiwan, January 6-7, 1987, pp. 41-53.

1986

"Keynes After Lucas," Eastern Economic Journal, July-September 1986, pp. 209-216.

"Can the Production Smoothing Model of Inventory Behavior be Saved?" Quarterly Journal of Economics, August 1986, pp. 431-453.

"More on the Speed of Adjustment in Inventory Models," Journal of Money, Credit and Banking, August 1986, pp. 355-365.

"A Skeptical Note on the New Econometrics," in M. H. Peston and R. E. Quandt (eds.), Prices, Competition and Equilibrium: Essays in Honor of William J. Baumol (London: Philip and Alan), 1986.

"Inventory Fluctuations in the United States Since 1929," in R. J. Gordon (ed.) The American Business Cycle: Continuity and Change, National Bureau of Economic Research, 1986 (with Douglas Holtz-Eakin).

"Macroeconomics, Income Distribution, and Poverty," in S. Danziger (ed.), Fighting Poverty: What Works and What Does Not, Harvard University Press, 1986 (with Rebecca M. Blank), pp. 180-208.

1985

"The Time Series Consumption Function Revisited," Brookings Papers on Economic Activity 2: 1985, pp. 465-511 (with Angus S. Deaton).

"The Policy Mix: Lessons from the Recent Past," in The Economic Outlook for 1986, University of Michigan, 1985. (Reprinted with changes in Economic Outlook USA, First Quarter 1986, pp. 3-8.)

"Notches," American Economic Review, September 1985 pp. 736-747 (with Harvey S. Rosen).

1984

"A Keynesian Revival ...?" in A. Heertje (ed.), The U.S.A. in the World Economy (Freeman Cooper), 1984, pp. 106-113.

"Public Opinion and the Balanced Budget," American Economic Review, May 1984, pp. 144-149 (with Douglas Holtz-Eakin).

"Reaganomics and Growth: The Message in the Models," in C. Hulten and B. Sawhill (eds.), The Legacy of Reaganomics, Urban Institute, 1984, pp. 199-227.

"Aggregation and Stabilization Policy in a Multi-Contract Economy," Journal of Monetary Economics, January 1984 (with N. Gregory Mankiw).

1983

"Money, Credit Constraints, and Economic Activity," American Economic Review, May 1983, pp. 297-302 (with Joseph E. Stiglitz).

"Issues in the Coordination of Monetary and Fiscal Policy," in Monetary Policy Issues in the 1980s, Federal Reserve Bank of Kansas City, 1983, pp. 3-34. (Partially reprinted in T. M. Havrilesky (ed.), Modern Concepts in Macroeconomics, Harlan Davidson, 1985.)

"On the Monetization of Deficits," in L. H. Meyer (ed.), The Economic Consequences of Government Deficits, Center for the Study of American Business, 1983). Also reprinted in Spanish, "Acerca de la monetización de los deficit," in Cuadernos Economicos de Ice, No. 28, 1984/3, pp. 39-68.

"Social Security, Bequests, and the Life-Cycle Theory of Savings: Cross-Sectional Tests," in R. Hemming and F. Modigliani (eds.), The Determinants of National Savings and Wealth, International Economic Association, 1983 (with Roger Gordon and Donald Wise).

Conversations with Neo-Keynesian Economists: The "Younger Generation," in A. Klammer, Conversations with Economists, Rowman & Allenheld, 1983, pp. 151-169.

1982

"Inventories and Sticky Prices: More on the Microfoundations of Macroeconomics," American Economic Review, June 1982, pp. 334-348.

"The Anatomy of Double Digit Inflation in the 1970s," in Robert E. Hall (ed.), Inflation, University of Chicago Press for NBER, 1982, pp. 261-282.

"On Making the Tradeoff between Equality and Efficiency Operational," in G. Feiwel (ed.), Samuelson and Neoclassical Economics, Kluwer-Nijhoff, 1982, pp. 317-328.

1981

"Retail Inventory Behavior and Business Fluctuations," Brookings Papers on Economic Activity, 2: 1981, pp. 443-505.

"Monetary Accommodation of Supply Shocks under Rational Expectations," Journal of Money, Credit, and Banking, November 1981, pp. 425-438.

"Inventories, Rational Expectations, and the Business Cycle," Journal of Monetary Economics, November 1981, pp. 277-304 (with Stanley Fischer).

"The 1971-1974 Controls Program: An Econometric Post-Mortem," Journal of Monetary Economics, July 1981, pp. 1-23 (with William Newton).

"Inventories and the Structure of Macro Models," American Economic Review, May 1981, pp. 11-16.

"Supply-Shock Inflation: Money, Expectations, and Accommodation," in M. J. Flanders and A. Razin (eds.), Development in an Inflationary World, Academic Press, 1981, pp. 61-101.

"Temporary Income Taxes and Consumer Spending," Journal of Political Economy, February 1981, pp. 26-53.

1980

"The Consumer Price Index and the Measurement of Recent Inflation," Brookings Papers on Economic Activity, 2: 1980, pp. 539-565.

"Market Wages, Reservation Wages, and Retirement Decisions," Journal of Public Economics, October 1980, pp. 277-308 (with Roger Gordon).

"Reconsidering the Work Disincentive Effects of Social Security," National Tax Journal, December 1980, pp. 431-442 (with Roger Gordon and Donald Wise).

"Inventories in the Keynesian Macro Model," Kyklos, Vol. 33, Fasc. 4, 1980, pp. 585-614.

"The Level and Distribution of Economic Well-Being," in M. S. Feldstein (ed.), The American Economy in Transition, University of Chicago Press for NBER, 1980, pp. 415-479.

1978

"Macroeconomic Activity and Income Distribution in the Postwar United States," Review of Economics and Statistics, November 1978, pp. 604-609 (with Howard Y. Esaki).

1977

"Indexing the Economy Through Financial Intermediation," in K. Brunner and A. H. Meltzer (eds.), Stabilization of the Domestic and International Economy, Carnegie-Rochester Conference Series (a supplement to the Journal of Monetary Economics), Vol. 5, 1977, pp. 69-105.

"A Difficulty with Keynesian Models of Aggregate Demand," in A. S. Blinder and P. Friedman (eds.), Natural Resources, Uncertainty and General Equilibrium Systems: Essays in Honor of Rafael Lusky (1977).

1976

"New Measures of Monetary and Fiscal Policy, 1958-1973," American Economic Review, December 1976, pp. 780-796 (with Stephen M. Goldfeld).

"Inequality and Mobility in the Distribution of Wealth," Kyklos, No. 4, 1976, pp. 607-638.

"Human Capital and Labor Supply: A Synthesis," Journal of Political Economy, June 1976, pp. 449-472 (with Yoram Weisse).

"Intergenerational Transfers and Life Cycle Consumption," American Economic Review, May 1976, pp. 87-93.

"On Dogmatism in Human Capital Theory," Journal of Human Resources, Winter 1976, pp. 8-22.

1975

"Distribution Effects and the Aggregate Consumption Function," Journal of Political Economy, June 1975, pp. 447-475.

1974

"Analytical Foundations of Fiscal Policy," in A. S. Blinder, et. al., The Economics of Public Finance, The Brookings Institution, 1974, pp. 3-115 (with Robert M. Solow). Portions reprinted in R. L. Teigen (ed.), Readings in Money, National Income, and Stabilization Policy, 1978.

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November 1992

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- "Murphy's Law of Economics," May 31, 1983.
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- "A Plea for Easy Money," March 8, 1983.
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- "Stockman and the Critics of Reaganomics," December 15, 1981.
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- "The Bank Crisis and the S&L Fiasco: Two Sides of a Bad Coin," February 4, 1991.
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- "The Shortest Route to Shoring Up the Highways," August 13, 1990.
- "Why a War Mentality About Japan is Self-Defeating," July 16, 1990.
- "O! That This Too, Too Solid Deficit Would Melt!," June 18, 1990.
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- "Improving the Chances of Our Weakest Underdogs--Poor Children," December 14, 1987.
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- "Plain Talk About the Dreaded 'T' Word," September 21, 1987.
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- "Just a Note to Say Thanks for the Tax Bill," September 15, 1986.
- "Where the Government Doesn't Spend Nearly Enough," August 18, 1986.
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- "A Dropping Dollar: The Faster, The Better," March 31, 1986.
- "They Buried the Budget with Full Military Honors," March 3, 1986.
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- "Economic Policy Can Be Hard-Headed--and Soft Hearted," August 11, 1985.
- "Shoe Quotas: Reagan Should Put His Foot Down," July 15, 1985.
- "Tax Reform: They Should Have Let Reagan Be Regan," June 17, 1985.
- "Reaganomics Made the Trade Gap Inevitable," May 20, 1985.
- "Let's Hear It for Economists (No Kidding)," March 13, 1985.

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- "A Proposal for Supply-Side Economics That Doesn't Squeeze Out the Poor," June 15, 1982.
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- "Save the Environment:: Issue Pollution Permits," August 18, 1987.
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San Diego Union-Tribune

- "Rebuild from Bottom Up by Investing," November 1, 1992.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: STIGLITZ (LAST) JOSEPH (FIRST) EUGENE (OTHER)

Position to which nominated: MEMBER, COUNCIL OF ECONOMIC ADVISERS Date of nomination: JUNE 18, 1993

Date of birth: 09 02 43 Place of birth: GARY, INDIANA
(DAY) (MONTH) (YEAR)

Marital status: MARRIED Full name of spouse: JANE HANNAWAY STIGLITZ

Name and ages of children: SIOBHAN FREDERICE (7/26/70) EDWARD HANNAWAY (4/17/80)

MICHAEL EDWIN (5/22/72)

JULIA HANNAWAY (5/16/82)

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	<u>AMHERST COLLEGE, AMHERST</u>	<u>9/60-9/63</u>	<u>BA</u>	<u>1964</u>
	<u>MIT, CAMBRIDGE, MA</u>	<u>9/63-9/66</u>	<u>Ph.D.</u>	<u>6/67</u>
	<u>CAMBRIDGE UNIVERSITY, UK</u>	<u>9/65-9/66</u>	<u>MA</u>	<u>1970</u>
	<u></u>	<u></u>	<u></u>	<u></u>
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	<u></u>	<u></u>	<u></u>	<u></u>

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

UAP SCIENTIFIC PRIZE, PARIS, FRANCE, 1989. FELLOW, NATIONAL ACADEMY OF SCIENCE, 1988. INTERNATIONAL PRIZE OF THE ACADEMIA LINCEI, 1988. FELLOW, AMERICAN ACADEMY OF ARTS & SCIENCES, 1983. JOHN BATES CLARK AWARD, AMERICAN ECONOMIC ASSN. 1979. ELECTED FELLOW OF THE ECONOMETRIC SOCIETY, 1972. GUGGENHEIM FELLOWSHIP, 1969-70). FULLBRIGHT FELLOWSHIP, 1965-66. NATIONAL SCIENCE FOUNDATION, 1964-1965. PHI BETA KAPP

Memberships:

List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
AMERICAN ECONOMIC ASSOCIATION	MEMBER, EXECUTIVE COMMITTEE	VICE PRESIDENT
ECONOMETRIC SOCIETY COUNCIL	1972-75, SECRETARY,	1988-90
FINANCIAL ECONOMICS ROUNDTABLE		
EUROPEAN ECONOMIC ASSOCIATION		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

PROFESSOR, STANFORD UNIVERSITY, STANFORD, CA, PRESENT TO 7/88

PROFESSOR, STANFORD UNIVERSITY, STANFORD, CA, 9/74-8/76

VISITING SCHOLAR, HOOVER INSTITUTION, STANFORD UNIVERSITY, 7/83-9/84

PROFESSOR, PRINCETON UNIVERSITY, PRINCETON, NJ, 9/79-7/88

DRUMMOND PROFESSOR, OXFORD UNIVERSITY, UK, 9/76-7/88

RESEARCH ASSOCIATE, NATIONAL BUREAU OF ECONOMIC RESEARCH, WASHINGTON, DC., 9/79-3/7/93

EDITOR, JOURNAL OF ECONOMIC PERSPECTIVES, AMERICAN ECONOMIC ASSOCIATION, 1/87-3/7/93

OSKAR MORGENSTERN DISTINGUISHED FELLOW & VISITING PROFESSOR, INSTITUTE FOR ADVANCED STUDIES AND MATHEMATICA, 1978-79

VISITING FELLOW, ST. CATHERINE'S COLLEGE, OXFORD, 1973-74

PROFESSOR OF ECONOMICS, COWLES FOUNDATION & DEPT OF ECONOMICS, YALE UNIVERSITY, 1970-74

SENIOR RESEARCH FELLOW, SOCIAL SCIENCE DIV. INSTITUTE FOR DEVELOPMENT STUDIES, UNIVERSITY COLLEGE, NAIROBI (UNDER ROCKFELLER FOUNDATION GRANT) 1969-71.

SEE ADDITIONAL PAGE

**Government
experience:**

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

CONSULTANT, NATIONAL SCIENCE FOUNDATION, ECONOMICS, PEER REVIEW PANEL,
1972-76; SPECIAL REVIEW PANEL, 1986
CONSULTANT, DEPARTMENT OF LABOR (PENSIONS AND LABOR TURNOVER) 1974
CONSULTANT, DEPARTMENT OF INTERIOR (OFFSHORE OIL LEASING PROGRAMS), 1974
CONSULTANT, FEDERAL ENERGY ADMINISTRATION (INTERTEMPORAL BIASES IN MARKET
ALLOCATION OF NATURAL RESOURCES), 1975-76
CONSULTANT, OFFICE OF TAX ANALYSIS, U.S. TREASURY
U.S. STATE DEPARTMENT, AID--COMMODITY PRICE STABILIZATION PROGRAMS:
CONSULTANCY IN THAILAND THROUGH HIID; IN SENEGAL, THROUGH PRINCETON UNIV
CONSULTANT, FEDERAL RESERVE BOARD
CONSULTANT, OFFICE OF TECHNOLOGY ASSESSMENT

**Published
writings:**

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

SEE ATTACHED CV

**Political
affiliations
and activities:**

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

DEMOCRATIC PRECINCT COMMITTEEMAN, PRINCETON

CALIFORNIA ECONOMISTS FOR CLINTON, SURROGATE SPEAKING FOR CLINTON-GORE
CAMPAIGN

Political

contributions:

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

NONE

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

SEE ATTACHED CV

Future employment
relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I WILL BE ON LEAVE FROM STANFORD UNIVERSITY, BUT WILL SEVER ALL OTHER CONNECTIONS.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

IT IS QUITE LIKELY THAT I WILL RESUME MY PROFESSORSHIP AT STANFORD UNIVERSITY
MY LEAVE FROM STANFORD UNIVERSITY ALLOWS ME TO RESUME MY PROFESSORSHIP IF I
SO CHOOSE.

3. Has anybody made you a commitment to a job after you leave government?

NO

4. Do you expect to serve the full term for which you have been appointed?
-

Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

NONE

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

INDIVIDUAL STOCKS LISTED BELOW. I AM WILLING TO DIVEST MYSELF OF ALL OF THESE
CONAGRA, BASS PUBLIC LTD, COMPAQ COMPUTER CO., ERLY INDUSTRIES, INC., GTE
CORP, GENERAL ELECTRIC, GENERAL MOTORS CORP, LONG ISLAND LIGHTING, PROMUS COS.
INC., PRIMERICA CORP., WELLCOME PLC SPONS., NIPSCO, BANK OF AMERICA, ELECTRO-
MEDICS, BRISTOL MYERS SQUIBB, UPJOHN, 20TH CENTURY INDUSTRIES.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

1. I WAS A CONSULTANT AND EXPERT WITNESS FOR THE STATE OF TEXAS IN LITIGATION
BETWEEN THE STATE OF TEXAS AND THE FEDERAL GOVERNMENT CONCERNING THE DIS-
POSITION OF REVENUES DERIVED FROM OFFSHORE GAS AND OIL LEASES AND IN DETER-
MINING THE PACE OF LEASING (1981-1984 APPROXIMATELY) AND A CONSULTANT FOR
LOUISIANA IN SIMILAR LITIGATION BETWEEN THE STATE OF LOUISIANA AND THE FEDERAL
GOVERNMENT.

2. I WAS A CONSULTANT FOR THE SENECA INDIAN NATION IN ITS LEASING DISPUTE
WITH THE CITY OF SALAMANCA.

3. I ADVISED CALIFORNIA, WASHINGTON, AND OTHER AFFECTED STATES CONCERNING THE
COMPETITIVE EFFECTS OF THE MERGER BETWEEN BANK OF AMERICA AND SECURITY
PACIFIC.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I ATTENDED ONE MEETING ON BEHALF OF THE SENECA INDIAN NATION WITH CONGRESSMAN HOUGHTON AND COMMITTEE STAFF MEMBERS IN CONNECTION WITH THE SALAMANCA/SENECA NATION DISPUTE.

AS A PRIVATE CITIZEN, IN COORDINATION WITH THE NATURAL RESOURCES DEFENSE COUNCIL, PROVIDED COMMENTS DURING THE ADMINISTRATIVE COMMENT PERIOD TO THE DEPT OF INTERIOR ON THE FEDERAL OIL 5-YEAR LEASING PROGRAM PLAN AROUND 1985-86

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I WILL TAKE WHATEVER ACTION IS NECESSARY AFTER CONSULTATION WITH THE APPROPRIATE WHITE HOUSE ETHICS OFFICERS, TO RESOLVE ANY POTENTIAL CONFLICT.

**Civil, criminal and
investigatory
actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

NONE

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

NONE

CURRICULUM VITAE

Joseph E. Stiglitz

Born: 9th February 1943
 Home Address: 773 Frenchman's Road
 Stanford, CA 94305
 Telephone: (415) 494-2927
 Office Address: Council of Economic Advisers
 Old Executive Office Building
 Room 315
 Washington, D.C. 20500
 Telephone: 202-395-5036
 Present Position: Expert Economist
 Council of Economic Advisers
 Previous Positions: Professor of Economics
 Princeton University, 1979-83
 Drummond Professor of Political Economy
 Oxford University, 1976-79
 Oskar Morgenstern Distinguished Fellow and
 Visiting Professor
 Institute for Advanced Studies and
 Mathematica, 1978-79
 Professor of Economics
 Stanford University, 1974-76
 Visiting Fellow
 St. Catherine's College, Oxford, 1973-74
 Professor of Economics
 Cowles Foundation and Department of
 Economics, Yale University, 1970-74
 Senior Research Fellow
 Social Science Division, Institute for
 Development Studies, University College,
 Nairobi (under Rockefeller Foundation Grant),
 1969-71

Associate Professor
 Cowles Foundation, 1968-70
 Assistant Professor
 Cowles Foundation, 1967-68
 Tapp Research Fellow
 Gonville and Caius College, Cambridge, 1966-70
 Visiting Professor
 Department of Economics, University of Canterbury,
 Christchurch, New Zealand, June-August, 1967
 Assistant Professor of Economics,
 M.I.T., 1966-67

Education:

B.A. Amherst College, 1964
 Ph.D. in Economics, M.I.T., 1966-67

Unearned Degrees:

M.A., Cambridge University, 1970
 M.A., Yale University, 1970
 D.H.L., Amherst College, 1974
 M.A., Oxford, 1976

Fellowships and Honors

UAP Scientific Prize, Paris, France, 1989
 Fellow, National Academy of Science, 1988
 International Prize of the Academia Lincei, 1988
 Fellow, American Academy of Arts and Sciences, 1983
 John Bates Clark Award, American Economic
 Association, 1979
 Elected Fellow of the Econometric Society, 1972
 Guggenheim Fellowship, 1969-70
 (also awarded Social Science Research
 Council Faculty Fellowship, 1969-70)
 Fulbright Fellowship, 1965-66
 National Science Foundation, 1964-1965

Consulting

Ford Foundation Energy Policy Study, 1973
 Department of Labor (Pensions and Labor Turnover), 1974
 Department of Interior (Offshore Oil Leasing Programs), 1975
 Federal Energy Administration (Intertemporal Biases in Market Allocation of
 Natural Resources), 1975-76
 World Bank
 O.E.C.D.

Electrical Power Research Institute
 Office of Fair Trading (U.K.) Consumer Protection Legislation
 Bell Communications Research
 Bell Labs
 U.S. State Department - AID
 Inter-American Development Bank
 State of Louisiana (Attorney General)
 State of Texas (Attorney General and Governor's Office)
 Office of Tax Analysis, U.S. Treasury
 Federal Reserve Board
 Office of Technology Assessment
 State of Alaska
 Seneca Indian Nation
 Micronomics

Selected Invited Lectures

Far Eastern Meetings of the Econometric Society, Tokyo, 1970
 Association of University Teachers of Economics, Warwick, 1974
 Westfälisch Academy of Science
 Fifth Annual Lecture of the Geneva Association, delivered at Zurich, March 1983
 David Kindall Lecture, University of Illinois, 1985
 Frank W. Paish Lecture, Association of University Teachers of Economics, Bath, United Kingdom, 1985
 Journal of Money, Banking and Credit Lecture, Western Economic Association, Las Vegas, 1985
 Invited Plenary Session Lecture, Meetings of the Sociedade Brasileira de Econometria, Belem, Brazil, December 1986
 Upjohn Lecture, Western Michigan University, 1986
 Johansen Lectures, Oslo, 1986
 Frontiers of Economics Lecture, World Bank, 1986
 Harry Lyman Hooker Distinguished Visiting Professors Series, McMaster University, 1986
 Shepherd Lecture, State University of Iowa, 1986
 Shell Lecture, City University, London, 1986
 Rand Chair Distinguished Speaker Series, SUNY-Buffalo, 1987
 Fisher-Schultz Lecture, European Meetings, Econometric Society, Copenhagen, 1987
 Jacob Marschak Lecture, Far Eastern Meetings, Econometric Society, Tokyo, 1987
 Invited Plenary Lecture, American Accounting Association, Cincinnati, 1987
 Central Bank of Uruguay, Annual Conference for South American Economists, 1988
 Argentina Economic Association, 1988
 NÖG Lecture, Austrian Economic Association, 1988
 John Crawford Lecture, Economic Congress of Australia (Joint Meeting of Economic Society, The Econometric Society, The Australian Agricultural Society and The Economic History Society of Australia and New Zealand -- Canberra), 1988
 Stevenson Lectureship, University of Glasgow, Scotland, December 1988
 Plenary Session Latin American Meeting of the Econometric Society, Santiago, Chile, August 1989
 1990 Musgrave Lecture, University of California, Santa Cruz, March 1990
 AT&T Lecture Series, Notre Dame University, April 1990

1990 Wicksell Lectures, University of Stockholm, May 1990
 Institute of Public Administration Annual Conference, Dublin, December 1990
 IPR-IRIS Conference, Prague, March 1991
 Caffè Lecture, Rome, April 1991
 Lindhal Lectures on Fiscal and Monetary Policy, Uppsala, Sweden, April 1991
 Keynote Lecture, Irish Economic Association Annual Conference, Dublin, May 1991
 Federal Reserve Bank of Cleveland, May 1991
 Villa Mondrago International Economic Seminar, Rome, June 1991
 Far Eastern Meeting of the Econometric Society, Seoul, June 1991
 Korea Development Institute, Seoul, June 1991
 National Association of Business Economists, Los Angeles, September 1991
 Marshall Lecture, European Economic Association Annual Meeting, Cambridge, UK, September 1991
 NBER/CEPR Conference on Unemployment and Wage Determination, Boston, October 1991
 NBER Taxation Program, Cambridge, MA, October 1991
 Institute for Policy Reform 1991 AID Economists' Conference, Raleigh-Durham, November 1991
 United Nations Conference on Trade and Development, Geneva, December, 1991
 CEPR Conference on Finance and Development in Europe, Santiago, Spain, December 1991

Editing

Editor, Journal of Economic Perspectives
 Editorial Board, World Bank Economic Review
 Board of Consulting Editors, Economic Notes (Monte dei Paschi Di Siena, Italy)
 Member, Scientific Committee, Assicurazioni, Rome, Italy
 Editorial Board, The Geneva Papers on Risk and Insurance Theory
 Editorial Board, Revista de Econometria
 Co-editor with H. Uzawa, Readings in Modern Theory of Economic Growth, M.I.T. Press, 1969
 Editor, Collected Scientific Papers of P.A. Samuelson, M.I.T. Press, 1965 (Japanese language edition, 1991)
 General Editor, Econometric Society Reprint Series
 Associate Editor, Journal of Economic Theory, 1968-73
 Co-editor, Journal of Public Economics, 1980-83
 American Editor, Review of Economic Studies, 1968-76
 American Editor, American Economic Review, 1968-76
 Associate Editor, Energy Economics
 Associate Editor, Managerial and Decision Economics
 Editorial Board, The Review of Industrial Organization

Other Activities

Committee on Graduate Education in Economics, American Economic Association
 Member, M.I.T. Cooperation Visiting Committee in Economics, 1971-83
 Member, Committee on Urban Public Economics, 1973

Secretary, Econometric Society, 1972-75
Council, Econometric Society, 1984-90
Steering Committee, Conference on Mathematical Economics, NBER
Member, Economics Panel, National Science Foundation, 1972-76
Executive Committee, American Economic Association, 1982-84; ex-officio, 1985-
Vice-President, American Economic Association, 1985
Special Review Panel, NSF, 1986
Visiting Committee, University of California, Department of Economics, 1989
Member, Nikkei International Academy, 1991
Member, Center for Economic Studies, 1991

ADDITION TO PAGE 2, EMPLOYMENT RECORD:

MICRO-ECONOMIC ASSOCIATES, BERKELEY, CALIFORNIA, HEAD, RESEARCH CONSULTANTS, 1975-1979

MICRONOMICS, LOS ANGELES, CONSULTANT, 1988-1993

OTHER CONSULTING AS REPORTED ON MY FORM SF 278

UNPAID EDITORIAL POSITIONS:

BOARD OF CONSULTING EDITORS, ECONOMIC NOTES (MONTE DEI PASCHI DI SIENA, ITALY)

MEMBER, SCIENTIFIC COMMITTEE, ASSICURAZIONI, ROME, ITALY

EDITORIAL BOARD, THE GENEVA PAPERS ON RISK AND INSURANCE THEORY

EDITORIAL BOARD, REVISTA DE ECONOMETRICA

ASSOCIATE EDITOR, JOURNAL OF ECONOMIC THEORY, 1968-73

CO-EDITOR, JOURNAL OF PUBLIC ECONOMICS, 1980-83

AMERICAN EDITOR, REVIEW OF ECONOMIC STUDIES, 1968-76

AMERICAN EDITOR, AMERICAN ECONOMIC REVIEW, 1968-76

ASSOCIATE EDITOR, ENERGY ECONOMICS

ASSOCIATE EDITOR, MANAGERIAL AND DECISION ECONOMICS

EDITORIAL BOARD, THE REVIEW OF INDUSTRIAL ORGANIZATION



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

One Massachusetts Avenue, N.W., Suite 310
 Washington, D.C. 20001
 202.737-0900
 Telecopier: 202.783-3571

Via FAX and Hand Delivery

July 12, 1993

The Honorable Donald Riegle
 Chairman
 Committee on Banking, Housing and
 Urban Affairs
 U.S. Senate
 534 Dirksen Senate Office Bldg.
 Washington, DC 20510

Dear Chairman Riegle:

On behalf of the North American Securities Administrators Association (NASAA),¹ we are writing today with respect to the hearings scheduled for tomorrow, July 13th, in which the Senate Banking Committee will consider the nomination of Arthur Levitt for the post of chairperson of the Securities and Exchange Commission (SEC). NASAA is pleased with the nomination of Mr. Levitt and looks forward to the new era of leadership he will bring to the Commission. We anticipate the result will be enhanced information sharing, coordinated rulemaking and shared enforcement efforts between the states and the SEC. Through such initiatives, which promise to allocate more efficiently scarce state and federal resources, it is hoped that investors will receive a greater measure of protection and that investor confidence in our securities markets and securities industry will be increased.

Mr. Chairman, NASAA has devoted considerable thought to how it is that the state securities agencies and the SEC may forge a more productive and effective working relationship. NASAA conveyed these observations to President Clinton in a letter urging prompt action to fill the SEC chair. We look forward to working closely with Mr. Levitt on the following issues where great improvement is needed:

o **Promoting legitimate small business capital formation.** NASAA brings to this issue a highly-successful and well-regarded program for small business capital raising.

¹ In the U.S., NASAA is the national voice of the 50 state agencies responsible for investor protection and the efficient functioning of the capital markets at the grassroots level.

President: Barry C. Guthrie (Massachusetts) • President Elect: Craig A. Goetsch (Iowa) • Secretary: Wesley L. Ringo (Wisconsin) • Treasurer: Wayne Klein (Idaho)
 Directors: Lewis W. Brothers, Jr. (Virginia) • Philip A. Feigen (Colorado) • Marcel de la Gorgendiere (Saskatchewan) • Mark J. Griffin (Nevada)
 Richard D. Latham (Texas) • Executive Director: Fowler C. West

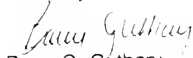
The state-level program now in place to promote small business capital formation has been designed to get scarce capital resources into the hands of new and expanding firms and out of the pockets of those who would inflict costly fraud and abuse on the investing public. Moreover, the states are closer to the small businesses seeking to raise capital and have been able to provide the type of one-on-one assistance needed by small entrepreneurs that cannot be provided by an agency housed primarily in Washington, DC. *As a result, we seek the SEC's cooperation with the states on small business capital formation issues.* High quality jobs result when there are high quality small businesses. It is precisely this type of capital formation effort that state securities regulators have attempted to foster in their new programs.

o ***Establishing a more effective "state liaison" function within the SEC.*** Given the nature of the investment regulatory system, which at its most effective and efficient involves a highly structured state-federal partnership, it would make sense to have a more formalized structure than presently exists for accomplishing state-federal coordination. *This goal could be accomplished by establishing, at the Commission's management level, an effective liaison dedicated to improving communication and coordination between the states and the SEC.* In addition, the states and the SEC would benefit from more routine meetings for the purpose of sharing information on emerging trends, exchanging new ideas for promoting investor protection and capital formation, and for coordinating regulatory and enforcement efforts.

o ***Facilitating a special procedure of notification to the states of Commission rulemaking initiatives and inviting consultation when appropriate.*** Currently, NASAA and its members, who are co-regulators, generally do not have the benefit of special notification of the agency's proposed rules and regulations, no matter what the impact on the ability of the states to carry out their own investor protection mandates and no matter what the impact on state laws and regulations. There have been exceptions to this standard practice, whereby, on an ad hoc basis, the states have been involved in the process of lending expertise for the drafting of such rules. *Because states also are engaged in rulemaking and because rules at the state and federal level may affect one another, NASAA respectfully suggests that the SEC promote rulemaking coordination and cooperation with state regulators.* The public interest would be better and more efficiently served under such a process.

In conclusion, NASAA respectfully offers its cooperation both to this Committee and to Mr. Levitt in order to instill a spirit of increased coordination between the SEC and the states. We are pleased to report that NASAA officials already have received a call from Mr. Levitt in which he expressed his desire to meet with NASAA representatives after he is confirmed by the full Senate in order to discuss issues of mutual interest. We appreciate the opportunity to provide these comments and request that this letter be made part of the confirmation hearing record.

Sincerely,



Barry G. Guthary

Director, Massachusetts Division of Securities

President, North American Securities Administrators Association



Craig Goettsch

Superintendent, Iowa Securities Bureau

President-elect, North American Securities Administrators Association

DONALD W. REEVE JR. MICHIGAN, CHAIRMAN

PAUL S. CARPANESE, MARYLAND
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 RICHARD C. SHELLEY, ALABAMA
 JOHN F. KERRY, MASSACHUSETTS
 RICHARD H. BRYAN, NEVADA
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 CONNIE WACK, FLORIDA
 LAUCH FAIRCLOTH, NORTH CAROLINA
 ROBERT F. BENNETT, UTAH
 WILLIAM V. ROTH JR., DELAWARE
 PETE V. DOMENICI, NEW MEXICO

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
 URBAN AFFAIRS

WASHINGTON, DC 20510-6075

STEVEN B. HARRIS, STAFF DIRECTOR AND CHIEF COUNSEL
 HOWARD A. MENELL, REPUBLICAN STAFF DIRECTOR

February 4, 1993

Mr. Dennis Beresford
 Chairman
 Financial Accounting Standards Board
 401 Merritt 7
 P.O. Box 5116
 Norwalk, CT 06856-5116

Dear Mr. Beresford,

As you know, a growing number of American companies have instituted plans granting stock options to rank and file employees, in addition to their cash compensation. The companies believe such plans increase their productivity by motivating employees to think like owners. The plans provide an incentive for individual employees to exercise greater initiative. The employees typically may not sell or transfer their options. Current accounting principles do not require recognition of a compensation expense for most stock option plans.

I understand that the Financial Accounting Standards Board is reconsidering the proper accounting treatment for stock compensation plans, including broad-based employee stock option plans. The FASB is to be commended for its continuing efforts to ensure that generally accepted accounting principles reflect economic reality to the greatest extent possible. In this instance, however, I am concerned that the approach outlined by the FASB could undermine the competitiveness of American industry without any corresponding benefit to the users of corporate financial statements.

In public statements, the Board has suggested that failure to recognize compensation expense relating to employee stock option plans may cause corporate financial statements to be misleading. The Board argues that stock options have value to employees, are provided by employers as a form of compensation, and should be reported by companies in their income statement as a cost, like cash compensation or health benefits. The Board has indicated it does not expect to require a specific method for estimating the value of stock options.

Mr. Dennis Beresford

2

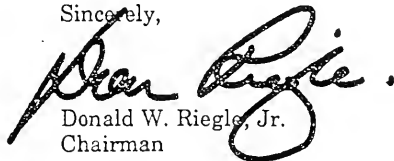
February 4, 1993

Many commentators, including corporations and labor unions, have criticized the Board's tentative conclusions. (Indeed, the Board acknowledged in a December 1992 release that it had "already received more than 300 comment letters, most of which disagree with the Board's view that granting fixed stock options to employees results in compensation expense that should be recognized in the employer's financial statements.") The enclosed Wall Street Journal article reports that the Council of Institutional Investors, which represents corporate and public pension funds, opposes the FASB's approach.

The Council reasons that while exercise of stock options dilutes the ownership interest of existing shareholders, it does not represent a cost to the issuer. In fact, exercise of options has a positive impact on the company's financial position -- the company receives the option exercise price in cash. The Council has suggested as an alternative that companies be required to disclose the value of all stock options using a single valuation formula.

The FASB should consider whether the expressed agreement between the preparers and the users of corporate financial statements suggests that the present accounting treatment for employee stock option plans is appropriate. I urge the Board to review the comments carefully before adopting any changes. Stock option plans for regular employees have the potential to stimulate American productivity. When the intensity of global economic competition seems to increase daily, their use should not be discouraged by accounting rules changes that arguably do not improve corporate financial statements.

Sincerely,

A handwritten signature in dark ink, appearing to read "Don Riegle", with a large, stylized flourish at the end.

Donald W. Riegle, Jr.
Chairman

DWR/mlf

Enclosure

Group Opposes Stock-Option Accounting Plan

Institutional Investor Panel
Takes Businesses' Side
Against Charges to Net

By CHRISTI HARLAN

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — An influential group representing pension funds and other big stockholders said it will fight an accounting-rule proposal that would require public companies to deduct from their earnings the value of stock options granted to executives.

The stance puts the Washington-based Council of Institutional Investors in uncharacteristic alignment with businesses, which have complained loudly that reporting stock options as a charge against earnings would be misleading and unfair.

Despite such opposition, the Financial Accounting Standards Board, the chief rule-making body for accountants, is leaning toward requiring companies to start making such charges against earnings. But the council and other groups could persuade the Securities and Exchange Commission to push for an alternative approach. The SEC's views would carry considerable weight since it oversees accounting rules. The commission's chief accountant, Walter Schuetze, declined to comment yesterday.

The council, like other shareholder groups, has fought hard for more disclosure of executive compensation and has won on many fronts. But it doesn't believe a charge against earnings makes sense, said Sarah Teslik, executive director of the council. Options "aren't dollars out of a company's coffers," she argued.

The group suggests that companies be required instead to add a detailed note to earnings, similar to currently required discussions of pending litigation, that would list all stock options and value them under a single method. Under the accounting rule, as currently conceived, a company could pick any option-valuation method it wanted, thereby reducing the ability to compare compensation at various companies.

The accounting rule is expected to be proposed early this year. The fact that it hasn't yet been formally introduced, however, hasn't stopped groups like the council, the Business Roundtable and many others from weighing in, most in opposition to the rule.

"Usually we develop a proposal, then ask for comment," accounting board Chairman Dennis Beresford said. The number of comments offered before the formal proposal indicates that "this is an emotional issue," he said.

Mr. Beresford said the accounting standards board will consider the comments but is pretty much committed to requiring the charge against earnings. "I don't think we're wedded to it until we adopt a formal statement" he said. "Engaged to it? Maybe."

The council's position will be tough to sell in Congress. Last year, Sen. Carl Levin (D., Mich.) proposed legislation that would require companies to charge stock options against earnings. An aide said Sen. Levin intends to re-introduce the legislation in this session. "We think the council's position is misguided and can't be reconciled with the facts," the aide said, arguing that "stock options have value, and they are a cost to the company" that should be counted against earnings.

BARBARA BOXER
CALIFORNIA

United States Senate

WASHINGTON, DC 20510-0505

May 28, 1993

Mr. Dennis R. Beresford
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Beresford:

I am writing to state my opposition to the Financial Accounting Standards Board ("FASB") proposed requirement that companies deduct from their profits the value of stock options granted to employees. I am concerned that the rule would threaten start-up and high technology companies in California, and would damage the competitiveness of California's businesses.

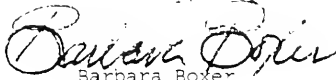
As you know, start-up and high-technology companies rely on stock options as an incentive to attract and retain scientists and experienced executives. These companies are of vital importance to California as California's economy struggles to recover. The proposed FASB rule would stifle needed entrepreneurship and punish companies that are trying to provide new jobs and new opportunities for Californians.

Stock options also have the potential to increase the productivity of California's businesses. Stock options are an important motivational tool, giving employees a stake in the companies for which they work. High technology companies hold the greatest hope for keeping the U.S. competitive in the global economy. It is essential that we do not force these companies to limit the use of this vital tool to foster productivity.

I understand and support efforts to improve disclosure of employee compensation. I do not think, however, that FASB's proposed rule is the best method for achieving this objective.

I therefore urge you to reconsider your decision to change the accounting requirements related to stock options. Please keep me informed of any developments with FASB's proposed rule.

Sincerely,


Barbara Boxer
U.S. Senator

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